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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## THE WEEK IN BRIEF

## PART I

OF IMMEDIATE INTEREST

## USSR CONTINUES CAMPAIGN FOR SUMMIT MEETING . . . . . Page 1

Soviet party chief Khrushchev's discussion of foreign policy in his 22 January speech at Minsk was designed to maintain diplomatic and propaganda pressure on the West in the current series of exchanges on the question of a heads-of-government meeting. Kremlin leaders apparently believe that mounting popular pressures for summit talks will progressively weaken the Western powers' position and eventually force them to agree to negotiations on terms favorable to the Soviet Union. [REDACTED]

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## BRITAIN SUGGESTS SUMMIT TALKS THIS SUMMER. . . . . Page 2

The British Government in its draft reply to Bulganin's second note suggests preparations for a summit meeting with the Soviet Union. The draft reply says preparation of an agenda should begin "at once" for a top-level meeting "sometime this summer." The reply may encounter some opposition in the North Atlantic Council if submitted in its present form. [REDACTED]

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## EGYPTIAN-SYRIAN UNION DEVELOPMENTS . . . . . Page 3

Syria's President Quwatli is scheduled to arrive in Cairo on 1 February, presumably to join Nasir in announcing Egyptian-Syrian union, but a last-minute postponement is possible. Proponents of union may try to keep up popular enthusiasm by inventing new Western "plots" against Syria and by exploiting the impact of recent Israeli-Syrian border incidents. To avoid offending proponents of Arab unity, Moscow may feel obliged to make some gesture approving the union when announced, despite some indications that it may continue behind-the-scenes opposition. [REDACTED]

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**PART I (continued)**

**VENEZUELAN JUNTA ANNOUNCES ITS PROGRAM . . . . . Page 5**

The basic program announced by the Venezuelan governing junta on 27 January calls for the restoration of constitutional government and free presidential elections within 18 months. The status of Communists, the influence of leftists in government, the return of exiles, and similar problems facing the junta could give rise to serious friction between military and civilian elements which appear united behind the new regime at present.

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**PART II**

**NOTES AND COMMENTS**

**KHRUSHCHEV'S PROPOSAL FOR AGRICULTURAL REORGANIZATION . . Page 1**

Khrushchev has again proposed shaking up the Soviet system in his campaign to catch up with the West. Now he proposes a radical but gradual transformation of the machine tractor stations (MTS)--for years the stronghold of economic and political control in the countryside. The increased strength of the party in rural areas since Stalin's death and recent changes in rural party organization have now made possible abandonment of the MTS as a control mechanism.

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**THE ALGERIAN REBELLION . . . . . Page 2**

The Algerian rebellion may soon enter a more active phase. The military potential of the rebels is improving

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**PART II (continued)****CYPRUS . . . . . Page 4**

During the past week Turkish Cypriots have engaged in the worst rioting since the beginning of the Cyprus controversy. The demonstrations were set off by the sudden departure of Governor Foot to confer with Foreign Secretary Lloyd, who was in Ankara for the Baghdad Pact meeting. A serious split in Greek Cypriot ranks has been emphasized by clashes between right- and left-wing members of the community. Unless the anticipated British statement on a new policy for Cyprus meets the minimum demands of Archbishop Makarios, EOKA is expected to resume full-scale violence in the near future. [REDACTED]

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**HAMMARSKJOLD'S PLAN FOR A MIDDLE EAST DEVELOPMENT FUND . . Page 4**

UN Secretary General Hammarskjold plans to push ahead with his plan for a Middle East development fund financed primarily by oil revenues. In his view it is the only way to prevent serious deterioration in the area. Members would consist of the Arab League states, including Libya and the Sudan but not Tunisia and Morocco. The plan faces formidable obstacles in the reluctance of the oil-rich Arab states to participate and in the general inability of the Arabs to work on common projects. [REDACTED]

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**BRITAIN'S FREE TRADE AREA PROJECT NEAR STALEMATE . . . . . Page 5**

Negotiations to establish a European free trade area are near a stalemate. Continental nations, particularly France, find Britain's recent limited concessions toward freer imports of agricultural products and on relations with the six-nation European Economic Community inadequate. Mutual interest in European economic cooperation may lead to additional concessions on the part of the British and to the necessary reciprocal concessions, but possibly not in time to establish the free trade area in 1958 as Britain desires. [REDACTED]

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**THREAT OF VIOLENCE REDUCED IN GUATEMALA . . . . . Page 7**

The danger of violence in Guatemala over the still undecided 19 January presidential election has diminished but not disappeared as a result of the agreement reached on 27 January between General Ydigoras, who won a clear plurality, and Cruz Salazar, the apparent runner-up. Cruz followers are to accept Ydigoras as president, and Ydigoras has promised to include his erstwhile opponents in an anti-Communist coalition and to give them three cabinet posts. [REDACTED]

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**PART II (continued)****RUSSIAN SCHOOLS TO TRAIN MORE STUDENTS FOR MANUAL WORK . . . Page 8**

The Ministry of Education of the Russian Republic has announced that 50 secondary schools in the republic have recently begun a study program designed to place students on the production line even before graduation. The new study program is probably a pilot project intended to ease the enrollment pressure on higher educational institutions and adjust an increasing number of secondary-school graduates to becoming industrial and agricultural workers rather than members of the intelligentsia. [REDACTED]

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**POLAND'S ECONOMIC PLAN FOR 1958 . . . . . Page 9**

Poland's economic plan and budget provide for appreciable economic advances in 1958 over 1957, but the decline in the rate of growth which began in 1950 is to continue. Consumer goods production is to be emphasized, but the necessity of restoring depleted reserves and of reducing foreign credits precludes any appreciable improvement during 1958 in the low standard of living. [REDACTED]

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**HUNGARIAN GOVERNMENT CHANGES . . . . . Page 10**

The relinquishment of the Hungarian premiership by Janos Kadar, who retains party leadership, suggests no significant changes in internal policy, but will enable him to devote more time to rebuilding the party into an effective instrument of Communist control. This and other leadership changes were probably designed primarily to convince the Hungarians and the non-Communist world that Hungary has returned to "normalcy." [REDACTED]

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**PEASANT UNREST IN RUMANIA . . . . . Page 11**

Peasants in eastern Rumania have been resisting stepped-up regime pressures for complete collectivization, and uprisings have been reported in at least two villages in which it may have been necessary to use Rumanian or Soviet troops to restore order. The reports, which are not confirmed, center on the Iasi region and the Danube riparian areas of Galati and Constanta. Western observers have been denied access to most areas east of Bucharest since 18 January. [REDACTED]

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**PART II (continued)****CHINESE COMMUNIST NATIONAL PEOPLE'S CONGRESS . . . . . Page 12**

The National People's Congress which begins plenary sessions in Peiping on 1 February after a one-week postponement is scheduled to discuss language reform, the state budget, the draft economic plan for 1958, and a program to "readjust" government organs under the State Council. It is also expected that the congress will be used as a forum to announce the dismissal of government officials accused as "rightists." The "conservative" outlook in economic matters is expected to come under attack, and economic plans will probably call for large increases in production and investment.

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**PEIPING'S NEW MILITARY DISCHARGE REGULATIONS . . . . . Page 14**

Peiping has issued new regulations governing the discharge of all army personnel conscripted after 1 November 1954. The regulations provide for preparing servicemen for civilian life and for easing the tensions between civilians and veterans, a problem of considerable concern to the regime.

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**LAOTIAN GOVERNMENT TAKES OVER FORMER PATHET LAO BASE AREAS . . . . . Page 14**

The Laotian Army has taken control of the former Pathet Lao provinces without opposition, and most of the Pathet Lao troops have entered regroupment centers where they are being processed either for demobilization or integration into the army. The Pathet Lao now is relying primarily on legal political techniques and subversion in its efforts to gain power in Laos.

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**ICELANDIC MUNICIPAL ELECTIONS . . . . . Page 16**

The Icelandic municipal elections on 26 January resulted in an impressive victory for the Conservative party--the chief opponent of the governing coalition of Progressives, Social Democrats, and the Communist-front Labor Alliance. The result will stimulate Conservative attacks on the coalition which may force the three parties into greater dependence on each other, thus making a breakup of the government coalition unlikely in the near future. The strong position of the pro-US conservatives will discourage the coalition from reviving its policy of opposition to US bases.

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**PART III****PATTERNS AND PERSPECTIVES****CHINESE COMMUNIST POLICIES TOWARD UNDERDEVELOPED AREAS . . Page 1**

Communist China, taking an active role in bloc efforts to supplant Western influence in underdeveloped regions, is concentrating chiefly on a propaganda offensive, cultural exchanges, and trade. Peiping's primary target is Southeast Asia, but it is becoming increasingly active in the Middle East, Africa, and Latin America. In addition to working for the advancement of bloc interests in these areas, the Chinese Communists hope to win wider diplomatic recognition and international acceptance. Only recently embarked on their own industrial development, the Chinese have gained prestige by extending or offering economic aid to other underdeveloped countries--Egypt, Yemen, Burma, Nepal, Cambodia, Ceylon, and Indonesia. [REDACTED]

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**SOVIET PRICE REFORM DISCUSSION . . . . . Page 3**

For the past year, Soviet economists have been discussing pricing policies in an effort to cope with the growing size and complexity of the economy. The appraisal is concerned particularly with the pricing of producer goods--raw materials, semifinished goods, and machinery. As more decisions are entrusted to lower echelons in connection with the regional reorganization of industrial management, it becomes increasingly important that these echelons, as well as planners in Moscow, work with prices which realistically reflect production and consumption conditions. [REDACTED]

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**MIDDLE EAST OIL DEVELOPMENTS 1957-1958 . . . . . Page 5**

The prospects for Middle East oil production in 1958 are for a record year, with levels substantially above those before the Suez crisis in late 1956. All major Middle East crude producers had fully recovered from the Suez crisis by mid-1957 with the exception of Iraq, where production was still down by almost 40 percent because of reduced pipeline capacity. By the end of 1957, over-all Middle East production had increased about 2 percent over 1956 and some 8 percent compared with 1955. [REDACTED]

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PART III (continued)

FALLING METAL PRICES DISTURB LATIN AMERICAN ECONOMIES . . Page 13

The downward trend of prices for copper, tin, lead, and zinc is undercutting the economies of Chile, Bolivia, Mexico, and Peru and causing concern among these and other Latin American primary producers over the possible imposition of tariffs by the United States. The success of US-backed economic stabilization programs in Chile and Bolivia is endangered, and Chile is turning to the Soviet Union as a customer for its copper. Mexican and Peruvian export patterns are the most diversified in Latin America, but falling metal prices are cutting foreign exchange revenues and retarding economic growth.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## PART I

OF IMMEDIATE INTEREST

## USSR CONTINUES CAMPAIGN FOR SUMMIT MEETING

Soviet party chief Khrushchev's discussion of foreign policy in his 22 January speech at Minsk was designed to maintain diplomatic and propaganda pressure on the West in the current series of exchanges on the question of a heads-of-government meeting. Kremlin leaders apparently believe that mounting popular pressures for summit talks will progressively weaken the Western powers' position and eventually force them to agree to negotiations on terms favorable to the Soviet Union.

Khrushchev examined in considerable detail the question of Soviet-American relations in the context of the current East-West diplomatic exchange, and took up a number of points raised in President Eisenhower's reply delivered on 20 January to Bulganin's December letter. The Soviet party chief sought to parry the President's proposal to establish international control of outer space for peaceful purposes by stating that the Soviet Union would be willing to discuss this problem only as part of a general disarmament agreement which called for a ban on nuclear weapons, suspension of nuclear testing, and liquidation of foreign military bases.

On the question of preparing for a heads-of-government conference, Khrushchev avoided giving the appearance of categorically rejecting Western proposals for preparatory negotiations through diplomatic channels or by foreign ministers. Although he omitted the refer-

ence in Bulganin's mid-January letters that a foreign ministers' conference might create additional obstacles to agreement at the summit, he contrasted the "urgent" Soviet calls for a summit meeting with alleged Western efforts, particularly on the part of the United States, to avoid talks by raising the impossible "demands" that the East European and German reunification questions be discussed.

The confident and unyielding tone of Khrushchev's remarks, together with the hard terms for discussion of international control of ballistic missiles, provides further indication that the USSR's campaign for a summit meeting is not intended to lead to serious substantive negotiations but is actually designed to discredit Western policy and to disrupt Western unity.

Soviet propaganda comment on the Western replies to Bulganin's December letters initially was restricted to brief factual reporting and the reactions of the Western press. On 27 January Izvestia printed the full texts of the replies from the United States, Britain, and France, together with a long editorial following the line of argumentation used by Khrushchev in his Minsk speech. Based on past Soviet practice, Khrushchev's remarks of 22 January probably were intended by the Kremlin as the Soviet answer to the Western replies.

The lag in the Soviet propaganda treatment of the Western

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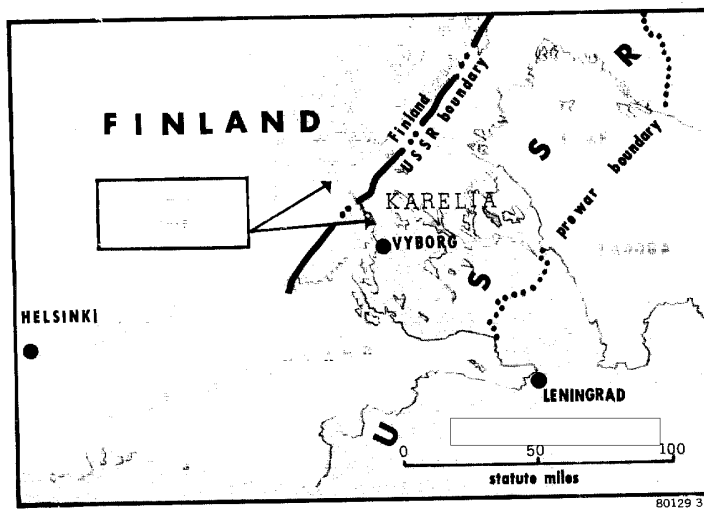
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replies, plus a three-day lapse before the publication of Khrushchev's foreign policy statement, indicates that the Kremlin is carefully studying its approach to the current East-West exchange--particularly the question of Soviet-American relations--and to its campaign for a summit meeting.

Soviet Foreign Minister Gromyko told Ambassador Thompson on 23 January that the Soviet Government is concerned with the composition of a heads-of-government meeting and pressed the ambassador very hard as to American views on possible participants.

In his remarks to Western ambassadors at a 27 January Indian reception, Khrushchev again urged the West to participate in a heads-of-government meeting, asserting that such a conference should first take up the "simplest problems" such as a nonaggression pact between NATO and Warsaw Pact powers.

Soviet diplomats have continued their efforts to gain



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Western support for the measures the USSR has proposed for high-level discussion. There are indications that the Soviet Union is willing to discuss with Finland the return of the Saimaa Canal area of Karelia. Such talks might be undertaken with the intention of gaining Finnish support for a "nuclear-free zone" in northern Europe, as called for in Bulganin's letters of 10 January to Norway and Denmark.

The USSR also appears to be trying to persuade the Austrian Government to take an active role in promoting a summit meeting and the establishment of a "nuclear-free zone" in central Europe.

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**BRITAIN SUGGESTS SUMMIT TALKS THIS SUMMER**

The British Government in its draft reply to Bulganin's second note suggests preparations should be undertaken for a summit meeting with the Soviet Union. The draft reply calls for the big four foreign min-

isters to start preparing an agenda "at once" for a top-level meeting "sometime this summer."

While emphasizing that the preparations must be adequate

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and thorough, the Macmillan government would in effect set a deadline for the meeting, as the opposition Labor party leaders have urged. This would turn the preliminaries into agenda-drafting rather than efforts at substantive progress to determine whether a meeting of heads of government would be productive.

The draft note states a preference that the British, French, American, and Soviet foreign ministers determine what issues should be discussed, but also suggests the alternative method of "confidential diplomatic exchanges." The British would reserve judgment as to which nations should be included in the summit talks.

If the draft is approved by Prime Minister Macmillan--now in Australia--it will be submitted for North Atlantic Council discussion. There it may be expected to encounter considerable opposition from West Germany, the Netherlands, and possibly others for tending to predetermine the holding of

a summit meeting without preliminary probing of Soviet intentions. London is sensitive to views expressed in NATO, and is probably ready to make some adjustments in the note; but the Macmillan government's evident belief that public opinion demands further Western initiatives might bring it to risk some annoyance by other NATO members rather than acquiesce completely in the views of the North Atlantic Council.

France's view of the preliminaries is similar to Britain's. Foreign Minister Pineau, speaking on a French television program on 27 January, stated that the best preparations for summit talks would be establishing an agenda through a foreign ministers' meeting. He suggested disarmament, German reunification, and aid to underdeveloped areas as topics, and added that those countries "directly" interested in the agenda should participate in the summit conference, presumably including West Germany.

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**EGYPTIAN-SYRIAN UNION DEVELOPMENTS**

A formal announcement of Egyptian-Syrian union, made by Nasir and Syria's President Quwatli from the rostrum of the Egyptian National Assembly, was scheduled for the end of this week but may be postponed because of a last-minute revival in Nasir's mind of doubts he had previously quieted.

Nasir is said to be wary of entering the labyrinth of Syrian politics. Typical of the problems he might encounter here is a reported move by the

the conservative Populist party to join with the Communists, remnants of ex-dictator Shishakli's Arab Liberation Movement, and the anti-Nasir Moslem Brotherhood in an anti-union alliance. Apparently trying to overcome Nasir's doubts on this point, Syrian Foreign Minister Bitar has proposed that the present Egyptian and Syrian national parliaments be dissolved in favor of a number of regional bodies in each country and an over-all union parliament--a move which might make

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it easier to get rid of some of the more obstreperous political personalities.

The Syrian Communists, however, will probably continue behind-the-scenes efforts to block or sabotage the union proposals. Syrian Communist party leader Bakdash has already announced that if the new union is really democratic, there will be no need for the dissolution of political parties--one of the conditions set by Nasir for Egyptian agreement to union--and Bakdash pointedly observed that the party had never dissolved voluntarily but only under pressure of dictatorships.

Syrian proponents of union may invent new Western "plots" in order to maintain popular enthusiasm for the proposals; Syrian propaganda media have pointed to the Ankara meeting of the Baghdad Pact Council as a likely hatching place for conspiracies against the Arabs. Another line that may be used once again is the Israeli threat, which could seem more real as a result of recent border incidents in the northern Israeli-Syrian demilitarized zone. New impetus to union would almost certainly be given should the Israelis undertake operations in reprisal for the killing of two policemen in a skirmish with Syrians this week.

Other Arab leaders continue to be concerned over the effect of an early announcement of Egyptian-Syrian union plans. Lebanese Foreign Minister Malik has said such a move would spell disaster for the pro-Western Lebanese Government, and has offered to "go any limit" if his government has American support.

Moscow seems to be faced with a conflict of interests in Syrian-Egyptian union. The Kremlin can hardly welcome any move affording the possibility of neutralizing pro-Soviet elements in Syria. To avoid offending proponents of Arab unity, however, Moscow may feel obliged to make some gesture approving the union when it is announced. There are indications that Moscow will therefore attempt discreetly to obstruct the actual implementation of union. Soviet diplomats have indicated that the USSR would have to reconsider economic and military commitments to Syria if union goes through.

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A difference in propaganda emphasis, which suggests uncertainty, has been evident in Moscow, where the radio has studiously avoided reference to union, while the Soviet press has maintained a fairly steady low-level attention to union in positive terms.

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**VENEZUELAN JUNTA ANNOUNCES ITS PROGRAM**

The basic program announced by the Venezuelan governing junta on 27 January calls for the restoration of constitutional government and free

presidential elections within 18 months. The status of Communists, the influence of leftists in government, the return of exiles, and similar problems

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facing the junta could give rise to serious friction between military and civilian elements which appear united behind the new regime at present.

The junta, by 25 January, had accomplished its principal immediate task of restoring order. It had also added two civilian representatives, removed two military members under popular pressure, and appointed a predominantly civilian cabinet.

The armed forces pledged their full support on 27 January, reportedly to dispel rumors that they were divided in allegiance to the new government.

substantial endorsement and has called for legalization of all factions, presumably including the Communists.

Top leaders of the three non-Communist members of the front also agreed, when in exile, to cooperate with the junta in preserving order and to unite their efforts for the restoration of democracy. They have not yet indicated their position toward Communism. They have also agreed that the new oil concessions, granted in 1956 and 1957 to primarily US-owned companies for initial payments of about \$700,000,000, are illegal and subject to future renegotiation--a position which may arouse military hostility.

The maintenance of three-party unity will be tested by personal ambitions and differences in party orientation. The younger leaders of the Patriotic Front may challenge the titular party heads, two of whom have been in exile for several years.

The PCV, with an estimated 9,000 members, stands to benefit politically as an important element in the front, particularly if the front is used as a device for coordinating party opinion with the junta. Under Perez it was allowed to retain a position in the labor movement, which now may be expanded.

The junta has expanded its civilian support. The Patriotic Front, a coalition of the four principal parties--the URD, the AD, the PCV, and the Catholic-oriented COPEI--has granted it

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PART II

NOTES AND COMMENTS

KHRUSHCHEV'S PROPOSAL FOR AGRICULTURAL REORGANIZATION

Khrushchev, in another of his bold plans for economic reorganization, has proposed the radical but gradual transformation of a historic agricultural institution, the machine tractor station (MTS). Under his proposal the large quantity of production machinery now owned by the state would be sold to collective farms--a step which Stalin as late as 1952 said "could only retard our advance toward Communism." Thus the proposal is a continuation of the post-Stalin critical review which is questioning all but the most basic tenets of the operation of the Soviet economy. When implemented, it will constitute the biggest organizational change in Soviet socialized agriculture since its establishment in the 1930's.

The MTS, one of the three basic Soviet agricultural institutions along with the state farm and the collective farm, is a state owned and operated pool of agricultural machinery which serves one or more collective farms on a contract basis. Khrushchev, in outlining his plan, said the tractor stations are to be gradually relegated to the status of repair depots and sellers of spare parts and machinery.

Khrushchev suggested that the proposed change be discussed on a nationwide basis, as was the case with the reorganization of industrial management in the spring of 1957. In the meantime, the MTS are apparently to service the 1958 crop. The change-over, when it comes, is to be gradual.

Control of their own machinery by the collective farms,

a step suggested by members of the American farm delegation which visited the USSR in 1955, should result in real savings. The separation of MTS and collective farm functions has undoubtedly been a cause of inefficiency, as has the size of the MTS themselves.

Khrushchev said the reorganization would reduce costs of grain to the state and in turn permit a reduction of retail prices of grain products. He expected it to lead to a more rational use of machinery, to elimination of unnecessary machinery purchases, and to an increase in over-all production.

Political Control

The increased strength of the Communist party in the Soviet countryside since Stalin's death and recent changes in rural party organization have paved the way for Khrushchev's proposal. As a result of the amalgamation of collective farms and the strengthening of rural party membership, nearly all collective farms now have primary party organizations in contrast to the situation that prevailed under Stalin in 1949, when only 15 percent of the farms could boast such units. There has also been a significant increase in the number of collective farm chairmen holding party membership.

In a move designed to facilitate greater control by primary party organizations in collective farms, the regime late last year withdrew some of the powers previously granted to the MTS. Under the agricultural reform of September 1953 which reinforced the political role of the MTS in the

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countryside, each MTS had been assigned a district party secretary who had charge of a group of party instructors, each of whom in turn supervised the political and personnel affairs of one or two collective farms. These MTS instructor groups now have been abolished, according to an editorial in the December issue of the party's organizational journal, Party Life, on the grounds that they tended to duplicate and interfere with the work of the primary party organizations in the collective farms.

The elimination of the MTS instructor groups, which were composed of at least 70,000 full-time party officials, was part of a general 20-percent reduction last year in the administrative staffs of rural party organizations. These experienced party officials have thus been made available for assignment directly to collective farm party organizations, and they probably comprised the bulk of the replacements for the large number of secretaries of primary party organizations who were removed last fall at the rural party conferences.

The effect of recent changes has been to strengthen party control at the grass-roots level in the countryside, making superfluous the direct political

supervision formerly exercised by the MTS.

Collective and State Farms

In addition to the proposal to transform the tractor stations, the post-Stalin critical review of the operation of the Soviet economy has included last year's industrial reorganization, the abolition of the doctrine that obsolescence cannot occur in a socialist state, and the current discussion of the Soviet pricing system which tends in its wider implications to conflict with the Marxist labor theory of value. (see Part III, page 3).

The searching nature of this review makes unclear the future status of collective farms and state farms. Soviet ideology calls for ultimate conversion of collective farms into state farms, and in the past few years many "economically weak" collective farms have been thus converted. Giving collective farms machinery could be a step toward more rapidly converting them into state farms. However, it is also possible that a long period of simultaneous operation of the new-style collective farms and the state farms, to determine their relative merits, may take place. (Prepared Jointly with ORR)

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**THE ALGERIAN REBELLION**

The Algerian rebellion, now well into its fourth year, may soon enter a more active phase after several months during which the National Liberation Front (FLN) appeared to have lost the initiative to the French pacification forces. In any event, the rebels' military potential, especially armament,

is improving and there is little prospect for an early end of the conflict, which is continuing to tie down over 400,000 French Army, Navy, and Air Force personnel.

There has so far been no noticeable increase in the intensity of the rebel campaign

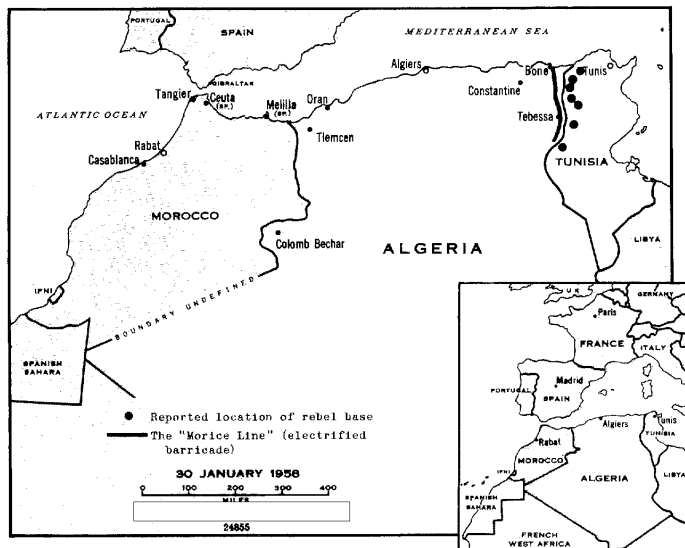
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as compared with recent months,

mer. They have had no difficulty replacing manpower losses, morale is high, and their performance in recent engagements indicates they are better trained and certainly better armed than heretofore. They may only be awaiting the arrival of more favorable weather or additional supplies before expanding their activities.

Should a new guerrilla offensive materialize this spring, it might be centered in eastern Algeria and, more specifically, in the region adjacent to Tunisia, where armed FLN bands have for some time enjoyed safe haven at training and operational bases.



The rebels are not believed capable at this time of capturing and holding any urban center of importance, but they might sharply increase terrorist activities, which have declined in recent months.

Despite the relative success of the French in clearing rebels from certain areas and the erection of the much-publicized "Morice line," an electrified barricade near the Tunisian frontier, the rebels are in some respects stronger militarily than they were last sum-

The situation may lead to actions within the next few weeks aimed at neutralizing the rebel bases in Tunisia. An all-out punitive effort against these targets could easily develop from France's application of the "hot pursuit" policy without any clear indication of special preparation.

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## CYPRUS

During the past week Turkish Cypriots have engaged in the worst rioting since the beginning of the Cyprus controversy. The riots were apparently triggered by fear that decisions were being made regarding a Cyprus settlement which did not provide for prompt partition of the island. The violent demonstrations, in which several Turks were killed and scores injured, were set off by the sudden departure for Ankara of Cyprus' Governor Foot to confer with British Foreign Secretary Lloyd, who was in the Turkish capital for the Baghdad Pact Council meeting. The riots were aimed both at Foot, whom the Turks consider too conciliatory toward the Greeks, and at the Greek Cypriot community. Only strenuous efforts by security forces prevented serious clashes between Turks and Greeks on Cyprus.

Meanwhile, within the Greek Cypriot community, a smoldering conflict between right-wing followers of Archbishop Makarios and left-wing members of the Pan-Cyprian Labor Federation recently developed into violence. Masked men, assumed to be acting on orders from EOKA, killed two prominent left-wing labor leaders and wounded three others. The subsequent island-wide protest strike called by leaders of the Labor Federation and clashes between the nationalists and the leftists emphasize the deep split in Greek Cypriot ranks. Calls for unity by Makarios and the leaders of

the Labor Federation have restored peace temporarily between two basically hostile groups. Barring further armed attacks by EOKA on labor union members, an appearance of unity probably can be maintained until self-government or self-determination for Cyprus is secured.

While all parties in the Cyprus dispute await the anticipated British announcement of a new policy for Cyprus, the authorities in Nicosia are making final security arrangements for an expected outbreak of violence by EOKA following issuance of the policy statement.

Meanwhile, in Ankara, conversations between British and Turkish officials have produced no mutually acceptable plan for Cyprus. 25X1  
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Violence can probably be prevented if Archbishop Makarios accepts the new British proposals for Cyprus. 25X1

## HAMMARSKJOLD'S PLAN FOR A MIDDLE EAST DEVELOPMENT FUND

UN Secretary General Hammarskjold plans to push ahead with his plan for a Middle East development fund financed primarily by oil revenues, which he believes is the only possible

way to prevent serious deterioration in the area. His preliminary discussions with the British and French foreign ministers, as well as with selected Arab statesmen, have

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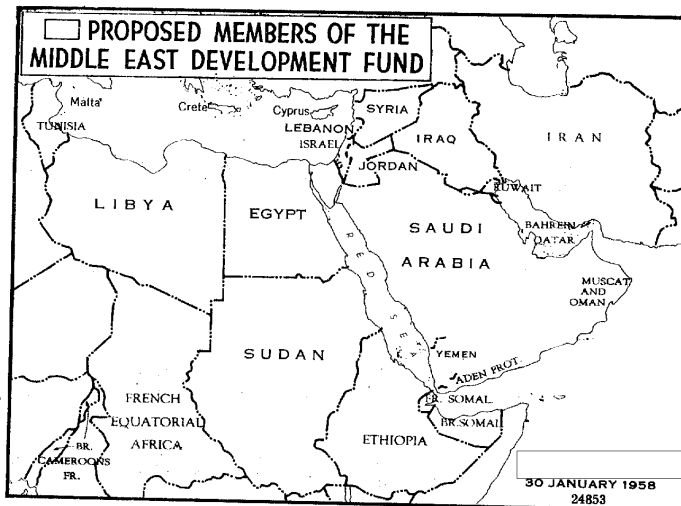
evidently led him to believe there are some prospects for such economic cooperation among the Arabs. The inability of the Arabs to work together on common projects and conflicts in local interests, however, will be difficult obstacles to overcome.

The UN Secretariat is preparing a study on the possibility of channeling Middle East oil profits into a central banking system for Arab development. Hammarskjold hopes that issuance of the report will induce the Arabs to call a meeting to organize such a bank. He sees the development fund consisting of members of the Arab League, including Libya and the Sudan but excluding Tunisia and Morocco, at least at the outset. He thinks inclusion of Iran, though desirable, would raise the question of Turkish and Pakistani participation, which he feels is undesirable.

Operation of the fund during its first five year is envisaged at the level of "hundreds of millions of dollars" in short-term governmental loans. Later on, the fund would get into longer term loans. Specific organizational plans for the fund have not been worked out.

The idea of utilizing Middle East oil revenues to finance inter-Arab development

schemes has been discussed periodically for several years. The Arab League "decided" in early 1956 to form an Arab Development Bank, and in January 1957 the International Bank for Reconstruction and Development submitted, at the league's request, a draft charter for such a bank. Last December, Egyptian Foreign Minister Fawzi discussed a central bank plan with US officials, indicating that a preliminary agreement had been reached by Egypt, Saudi Arabia, and Iraq. Fawzi emphasized, however, that "help was needed" from the United States and Britain, not only in technical advice but also in encouraging oil-rich Arab states to participate. Although it has been argued



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that such an investment on their part should be politically attractive to them, the principal oil-producing countries have so far been reluctant to make significant cash contributions.

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**BRITAIN'S FREE TRADE AREA PROJECT NEAR STALEMATE**

Mid-January discussions in the OEEC's intergovernmental committee on the establishment of a Free Trade Area (FTA) have revealed a near stalemate.

Continental nations, particularly France, find Britain's recent limited concessions toward freer imports of agricultural products and on relations

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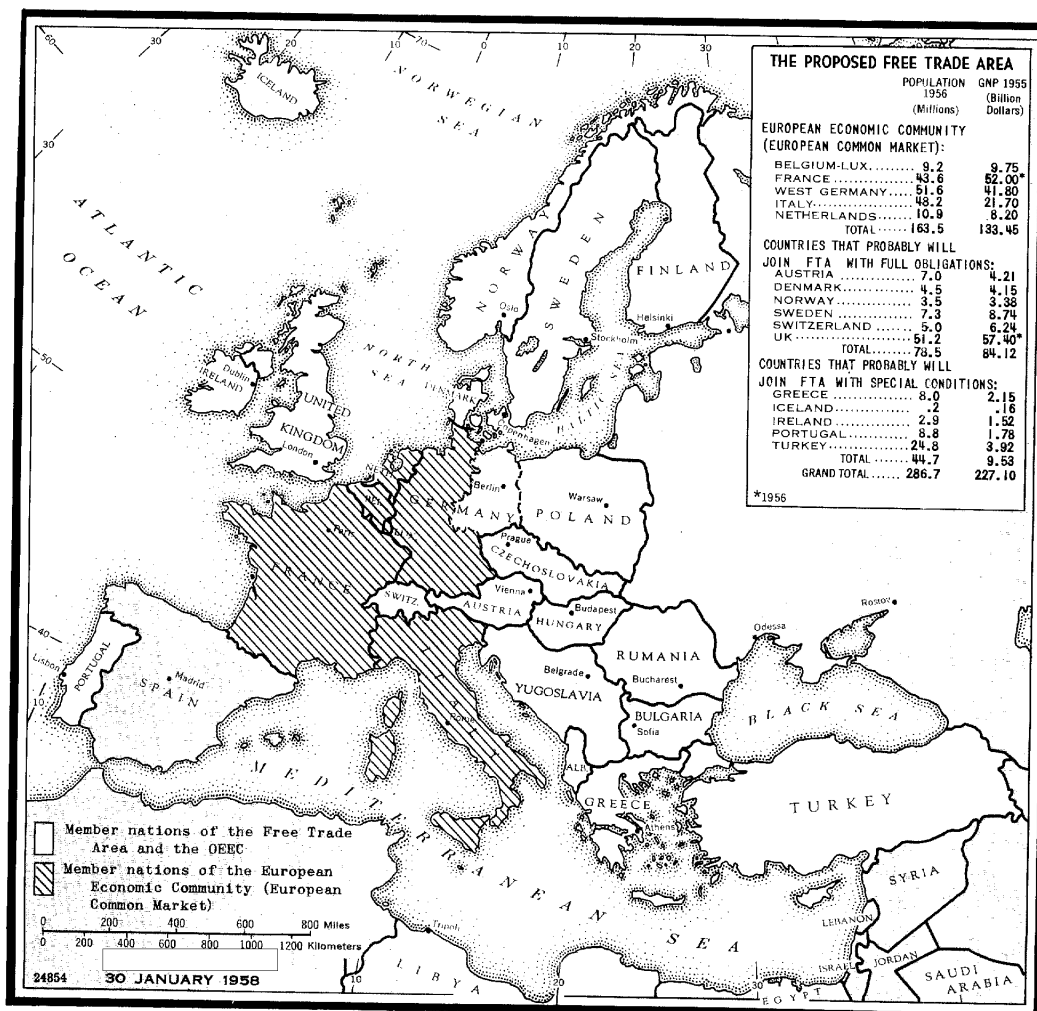
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with the six-nation European Economic Community inadequate. Mutual interest in European economic cooperation may lead to the necessary reciprocal concessions but possibly not in time to establish the free trade area in 1958 as Britain desires.

Britain has offered some slight concessions on the FTA's institutional relations with the European Economic Community and on the British proposal to exclude all agricultural imports from the FTA's trade liberaliza-

tion program--a major stumbling block to the Continental powers.

The Continent still wants the FTA, but most nations find Britain's recent concessions inadequate. The intensity of their objections varies from France's obstructionism to a strong West German desire to cooperate with Britain. The French Government accepts the FTA in principle but urges that because of the parlous state of France's trade and finances and in view of increased West German competition in the European

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Economic Community, it cannot now risk additional competition that would result from establishment of the FTA. It is therefore resorting to hard bargaining and delaying tactics and now promises to introduce its own proposal on the FTA in March.

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## THREAT OF VIOLENCE REDUCED IN GUATEMALA

The danger of violence in Guatemala over the still undecided 19 January presidential election has diminished as a result of the agreement reached on 27 January between General Ydigoras Fuentes, who won a clear plurality, and followers of Lt. Col. Jose Luis Cruz Salazar, the apparent runner-up. Cruz followers are to accept Ydigoras as president, and Ydigoras has promised to include his erstwhile opponents in an anti-Communist coalition and to give them three cabinet posts.

Pro-Cruz parties control the congress, which began its review of the votes on 27 January and which, since no one won a majority, will have the responsibility of naming one of the two top runners president-elect. Congressional leaders expect the process to take at least ten days.

The agreement was motivated by the realization that it was perhaps the only way to avoid serious political violence and also by a desire to form a united front against leftist resurgence. The residue of bitterness between Ydigoras and Cruz partisans is still strong, however, and if the pact hits a snag, serious violence is still possible. Both Ydigoras and Cruz followers are armed. Interim President Flores might

well use any violence to justify an attempt to continue in office. There is some suspicion that he may even be spreading rumors of impending disturbances along the Mexican and Salvadoran borders in an attempt to accomplish this end.

Ydigoras, though supported by extreme conservatives, probably could not impose a repressive dictatorship even if so inclined. He would, at least for a time, be checked by a generally moderate-minded officer corps which has shown itself



YDIGORAS



CRUZ

responsive to public opinion, by a congress in which his partisans will form a minority at least until the next congressional elections two years hence, and by the safeguards written into the agreement with Cruz.

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The leftist Revolutionary party, which polled over a quarter of the votes and emerged as an important political force, has apparently been left out of the Ydigoras-Cruz agreement. It will probably not, however, stage a violent protest since

its leaders realize that the public will condemn any group initiating violence at this time. Party leaders are avowedly anti-Communist, but the party is a prime Communist target and is already infiltrated in its lower echelons.

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## RUSSIAN SCHOOLS TO TRAIN MORE STUDENTS FOR MANUAL WORK

The Russian Republic Ministry of Education has announced that 50 secondary schools in the republic have recently begun a study program designed to place students on the production line even before graduation. In city schools, ninth- and tenth-grade students will study only three school days a week and devote the remaining three to factory work. Rural pupils in those grades will spend most of the winter with their academic studies but during agricultural seasons will apparently work full time for collective farms or machine tractor stations.

Not only is it planned to retain all the general educational courses taught in standard ten-year schools, but "special disciplines, familiarizing the students with the theoretical part of their selected profession," will be added to the curriculum. For this season, the course of study in these 50 schools will be extended from ten to "11 or 12 years." After they complete this course, students will be assigned to those factories, collective farms, and machine tractor stations where they did their practice work.

The regime is apparently attempting to solve the growing

social problems connected with the transition to universal ten-year education. Soviet universities and two-year higher technical schools are experiencing difficulty in absorbing the increasing numbers of secondary-school graduates who wish to go on to further training. There is evidence of dissatisfaction among many young people who have been refused admission to higher institutions and reluctance on their part to enter the factory and agricultural labor force.

The regime has instituted the policy of preferential consideration for university applicants who have worked one or two years. On the other hand, factory and collective farm managers are often reluctant to hire secondary-school graduates, apparently because they feel the young people will leave at the first opportunity, and also because of the legal restrictions on hours and types of work they may be required to perform.

This latest development appears to follow the current trend in Soviet education toward more specialized training at the secondary-school level. In 1956, an experimental study program was introduced in over 500 schools in the Russian

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Republic, whereby the number of hours spent studying "principles of production" was doubled in the eighth through the tenth grades. Under that program, eighth- and ninth-grade students spent 24 days during the summer working at collective or state farms or factories. Apparently the program was successful because in September 1957 it was extended to cover one fourth of all the schools in the republic.

The new experiment might ultimately lead to a dual system of secondary schools, with

admission to the traditional academic ten-year schools--and therefore to higher institutions--limited to "bright" students, and the less able youngsters shunted first into the 12-year technical schools and from there into the labor force. More immediately, however, the technical secondary schools are probably intended to ease the enrollment pressure on universities and higher technical schools and to adjust an increasing number of secondary school students to becoming industrial and agricultural workers rather than members of the intelligentsia. (Concurred in by OSI)

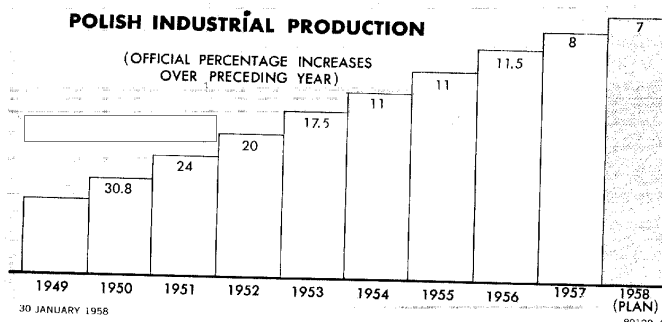
**POLAND'S ECONOMIC PLAN FOR 1958**

Poland's economic plan and budget provide for appreciable economic advances in 1958 over 1957, but the decline in the rate of growth which began in 1950 is to continue. Consumer goods production is to be emphasized, but the necessity of restoring depleted reserves and of reducing foreign credits precludes any appreciable improvement during 1958 in the low standard of living.

Industrial output is slated to increase during 1958 by about 7 percent over the 1957 level. Emphasis on the output of consumer goods is to continue, production being set at 8.4 percent above 1957 output, while heavy industrial production is to rise 5.5 percent, in contrast to the trend in the other satellites. Agricultural output is to increase about 4 percent but will not be sufficient to permit the

much-publicized abolition of compulsory farm produce deliveries.

The Polish budget--12 percent higher than the record 1956 budget--is in line with the economic plan in programing increased economic activity in 1958. It provides for a small increase in national defense expenditure over the low 1957 figure and an increase in investments of about 7 percent. It substantiates the moderate trend toward administrative decentralization by reducing the proportion of budget funds

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passing through state channels and the proportion of total investments financed through the budget.

Despite the increased output scheduled, the standard of living will not rise as much during 1958 as it did during 1956 and 1957. There will be no significant improvement in the amount and variety of food available because food exports are to increase 33 percent. Industrial consumer goods and housing will continue to be extremely scarce. Reserves of food and consumer goods which were depleted in 1957 to satisfy demand are to be restored this year, and the use of expensive short-term credits is to be restricted. Possibly as much as 50 percent of the increase in personal consumption in 1957 was financed by foreign credits.

As in 1957, the urban worker will benefit least from

any small improvement that materializes in living standards, and discontent among urbanites will probably increase. Despite increases in wages, real incomes rose little in 1957, except in the case of selected categories of workers such as coal miners. Gomulka has warned all workers that they can expect higher wages this year only if they work harder and more effectively.

In contrast to the Polish peasant, whose real income rose 18 percent between 1955 and 1957 and whose morale is highest among farmers in the bloc, the depression of the Polish worker continues to deepen with the dim prospect of improvement in his standard of living. His attitude is exemplified by a radical increase in absenteeism and alcoholism and by sporadic strikes, which will probably be more frequent in 1958.

(Prepared by ORR)

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## HUNGARIAN GOVERNMENT CHANGES

The changes in the Hungarian Government which occurred on 27 January during the National Assembly session suggest no significant change in internal policy, although the replacement of the moderate minister of culture by a hard-line Communist appears to presage a further tightening in the cultural sphere. The reshuffle was probably designed to complete the return to "normalcy" before Hungary enters a period of rigorous consolidation of Communist control.

The relinquishment of the premiership by Kadar, who retains party leadership, will enable him to devote more time to rebuilding the party into an effective instrument of con-

trol for the Communists. At the same time, some persons who were of value during the postrevolutionary phase because of their national Communist or liberal backgrounds--offering the best chance of some support from the hostile Hungarian public--may be forced into the background in favor of more reliable, militant figures.

Premier Kadar and Minister of Culture Kallai, both moderates, stepped down in favor of First Deputy Premier Muennich and Valaria Benke, respectively, allegedly so that Kadar and Kallai could devote more time to their party duties. Concurrently, Stalinist Antal Apro moved up to first deputy premier. Muennich is a Moscow-educated old-time Communist who proved

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his loyalty to Moscow by organizing and heading the security organs after the 1956 revolution. There is little evidence



MUENNICH

of any rivalry between him and Kadar. Kadar and Kallai remain in the government as ministers of state, positions which will

enable them to oversee but not to administer government policy. Kallai is taking over leadership of the regime's major mass organization, the Patriotic People's Front--perhaps as part of a move to expand its activities.

Benke, former head of the Hungarian radio and noted for her advocacy of a hard cultural line, will probably be more inclined than her predecessor to follow a repressive policy in the literary sphere in line with Stalinist desires.

The position of Kadar, who may still be regarded with some suspicion by the USSR because of his past "national Communist" associations, appears to have been restricted by the promotion of Stalinist members of the regime. As head of the party, he nevertheless will retain a powerful position as long as he serves Moscow's purposes.

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## PEASANT UNREST IN RUMANIA

Peasants in eastern Rumania are resisting stepped-up regime pressures for complete collectivization.

at least two uprisings may have been suppressed by Rumanian or Soviet troops thus far centered on the Iasi region and the riparian areas of Galati and Constanta, along the Danube.

Although peasants in these areas have been relatively passive in recent years, they have been the subject of particular attention during the regime's 1957-1958 collectivization campaign. During 1957 the total percentage of arable land in collective units rose from 17.5 to 31 throughout Rumania, but

in Constanta, Iasi, and Galati the increase was even more marked. Land which originally had been taken into intermediate peasant cooperatives was summarily incorporated into state farms, thus adding to peasant resentment.

On 20 October it was announced that Constanta was the first of Rumania's 16 regions to be fully collectivized, and it is estimated that at least seven out of Galati's 11 districts are also fully collectivized. Political-organizational work by an estimated 40,000 agitators, working on a house-to-house basis, has supplemented strong economic pressures. The regime may be willing to risk even extreme measures at this

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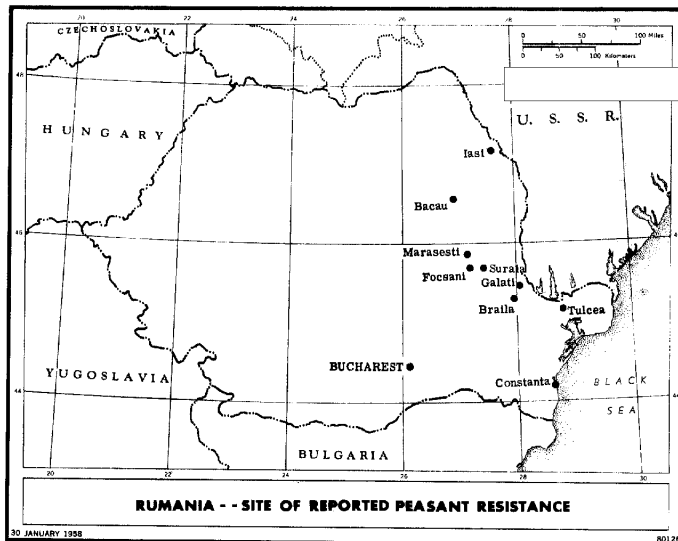
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time because of the margin of safety provided by a record harvest in 1957.

all of the inhabitants of the village of Suraia were killed or hospitalized as a result of action by Soviet troops. On 26 January two "columns" of Soviet forces were reported moving toward the city of Focsani, ten miles west of Suraia. A revolt was also reported in an unnamed, nearby village. The Turkish consul in Constanta reported the same day that pressures for collectivization were meeting strong resistance, requiring armed intervention in areas of the Galati region, including Braila and Focsani, and in the Tulcea district of the Constanta region.

Western observers in general have been denied access to these areas since 18 January, although the Tulcea area was not closed until 27 January. Furthermore,

Greek nationals living in Galati have been denied permission to visit Bucharest for nearly a month. The US air attaché, however,



was granted permission to fly to Iasi within the past week.

Earlier speculation that these restrictions were designed to hide maneuvers by Warsaw Pact armies would seem to be weakened by the inclusion of Tulcea, where the terrain is not suitable for large-scale maneuvers. The US air attaché reported the area blanketed by heavy snows which delayed his return to Bucharest from Iasi for more than 24 hours. The attaché, who heard rumors of Soviet troop rotation while he was in Iasi, now believes they were a "plant," intended to cloak the real reason for denying travel requests from Western diplomats.

## CHINESE COMMUNIST NATIONAL PEOPLE'S CONGRESS

Peiping has announced that plenary sessions of the National People's Congress (NPC), which was originally scheduled to convene on 25 January, will begin a week later after conclusion of "preparatory" meet-

ings addressed by top regime leaders. This delay suggests that the Chinese Communists are making last-minute changes in the agenda and want to give delegates more time to become familiar with their scripts.

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The most likely addition to the business of the congress is the removal of government officials accused of political deviation. Some recent meetings of the provincial congresses have already been used for this purpose.

The NPC, on paper the "highest organ of state power" but in fact a rubber stamp body, would be an appropriate instrument for the latter assignment. The last session--held from 26 June to 15 July--was used to launch the regime's antirightist campaign which followed stormy criticism of Peiping's policies and the Chinese Communist party during the spring of 1957. The 1 February date for convening this special session of the NPC coincides with the official end of the second phase--the attack on "rightists"--in the rectification campaign.

Three ministers who have been under heavy attack since last summer--Communications Minister Chang Po-chun, Food Minister Chang Nai-chi, and Timber Minister Lo Lung-chi--are expected to resign in disgrace along with some of their key subordinates. The Ministry of Building Materials Industry was singled out for official criticism about two weeks ago and will probably yield additional victims. Lai Chi-fa, the Communist party member who heads this organization, has already confessed to mistakes in leadership which permitted "counterrevolutionary elements" to penetrate subordinate offices of the ministry.

The announced agenda of the congress calls for discussion of the 1958 draft economic plan and budget, a plan for phoneticization of the Chinese language, and a program to "readjust" government organs

subordinate to the State Council. The nature of the contemplated readjustments is suggested by resolutions issued last November which ordered that certain activities of ministries dealing with light industry, the food industry, forestry, textile industry, building construction, and communications be removed from the direct control of the ministries in Peiping and placed under the regional and local authorities. At the same time, the planning system was simplified so that economic plans would be less rigidly determined from Peiping. Certain of the ministries and commissions which have lost part of their functions may now be abolished or amalgamated. This would be in line with Peiping's demonstrated determination to reduce the capital's bureaucracy.

The 1958 annual economic plan and budget to be presented to the congress will probably call for large increases in production and investment over last year's relatively modest goals. Plans of this nature would be a natural outgrowth of the regime's campaign over the past few months against the "conservative" outlook in economic matters. The People's Daily has defined a "conservative" as one who thinks that too much was attempted in 1956, who regards the long-range agricultural plan as "too impetuous," and who feels that the five-year plans have been "off the mark." The regime has noted approvingly the high agricultural targets set by various provinces. Various enterprises have already replaced goals drawn up since mid-1957 with new and more ambitious ones. (Prepared jointly with ORR)

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****30 January 1958****PEIPING'S NEW MILITARY DISCHARGE REGULATIONS**

Peiping has issued new regulations governing the discharge of all army personnel conscripted after 1 November 1954. The regulations provide for preparing servicemen for civilian life and for easing the tensions between civilians and veterans, a problem of considerable concern to the regime.

The approximately 800,000 army men slated for discharge this year comprise the first group conscripted under the provisions of the military conscription law. According to the new regulations, these men are to undergo intensive pre-separation training covering "socialism, patriotism, production through labor, participation in the militia force, observance of government decrees, unity with town and cooperative cadres, establishment of good relations with the masses, and the revised draft national program for the development of agriculture."

Farewell parties are to be held by the military units for

the discharged servicemen, and welcoming parties are to be organized by the people's councils of their home villages.

The new regulations provide for retirement bonuses and benefits for those disabled on active duty. Those discharged are required to make application for reserve service.

In September 1956, Defense Minister Peng Te-huai warned veterans that they were demanding too much from the party and government without contributing their full share to "peaceful production." Shortly thereafter, a Defense Ministry directive ordered all units to perfect demobilization work during 1957 in order to facilitate the veterans' transition to civilian life. The new regulations complement the "Support the Government--Love the People" program and the rectification campaign within the armed forces, both of which were instituted last year to reduce friction between the civilian populace and servicemen including veterans.

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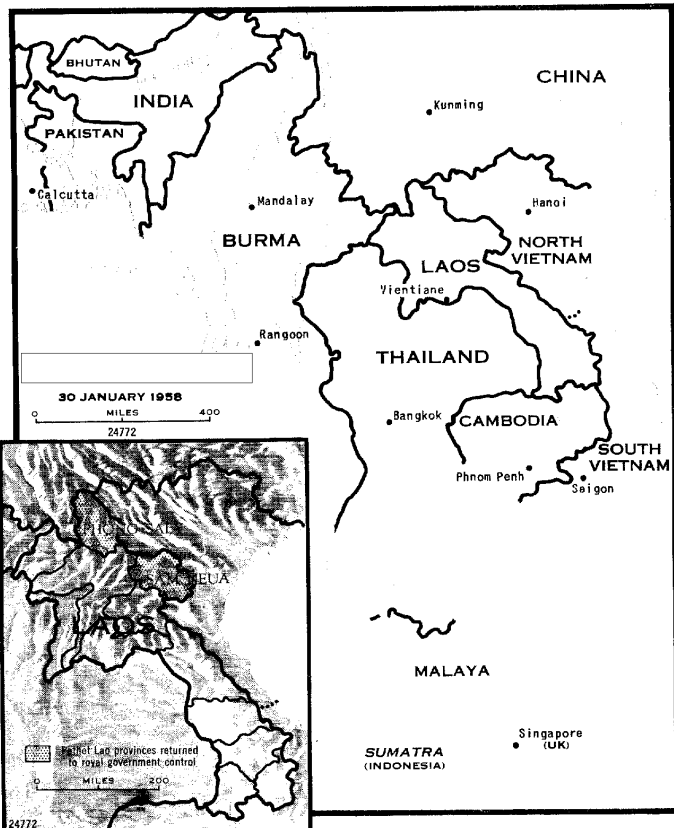
**LAOTIAN GOVERNMENT TAKES OVER FORMER PATHET LAO BASE AREAS**

The Pathet Lao has, for the most part, complied with the military provisions of the unification accords. Laotian Army forces totaling 11 battalions encountered no opposition in their recently completed reoccupation of the two provinces formerly held by the Pathet Lao. Royal government functionaries are expected to proceed into the two provinces in large numbers once the mili-

tary units are settled in position. The main communication routes to North Vietnam and China will be sealed off, and the government-appointed administration will begin to function in the two provinces after three and one half years of Pathet Lao control.

The number of Pathet troops arriving with their weapons at the regroupment centers prior

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as proof that the settlement accords recognized the Pathets on terms of equality with the government, and are urging the people to disregard the orders of government functionaries.

Demobilized Pathets returning to their home villages in Sam Neua reportedly are organizing clandestine cells, and this pattern will doubtless be followed throughout Laos during the next few weeks. In addition, the government's amnesty to political prisoners is already reported to have given a boost to both the Pathets and the fellow-traveling National Union party.

In taking the gamble of exchanging its military base for legitimate political status, the Pathet Lao undoubtedly believes that its dynamism and superior organization will give it an edge in competition with the traditional Laotian political parties. The conservative parties seem alive to this threat. Chiefs of the leading conservative parties--the Nationalists and Independents--have signed an agreement to support a jointly approved slate of candidates for the 4 May supplementary elections. There are also tentative signs that the small, conservative Democratic party is breaking its unnatural alliance with the left-wing National Union party, and may collaborate with the conservative parties.

to the 18 January deadline swelled to about 7,200, including some dependents, out of the estimated total Pathet strength of 7,500. It is still believed likely, however, that the Pathets have cached some small arms and that a small nucleus of armed men will continue to hold out and engage in harassing activity against the government.

Pathet propaganda cadres in Sam Neua Province have been holding nightly meetings to condition the population for the shift to a period of "political warfare." The cadres are pointing to the 50-50 division of administrative posts in the two provinces between government and Pathet functionaries

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**ICELANDIC MUNICIPAL ELECTIONS**

The Icelandic municipal elections on 26 January resulted in an impressive victory for the Conservative party, the chief opponent of the governing coalition of Progressives, Social Democrats, and the Communist-front Labor Alliance. Since the popularity of the national government became an issue in the elections, the result will stimulate Conservative attacks on the coalition. The three parties may thereby be forced into greater dependence on each other, thus making it unlikely that the government coalition will break up in the near future. The strong posi-

tion of the pro-US Conservatives will discourage any intent by the coalition to revive its policy of opposition to US bases.

that their more favorable showing in the 1956 parliamentary elections resulted only from their electoral alliance with the agrarian Progressives. In Reykjavik the Progressives increased their popular vote considerably.

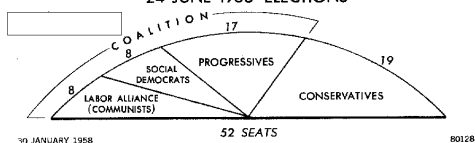
The results of the municipal elections and the outcome last week of the trade union elections in Dagsbrunn, the unskilled workers' union in Reykjavik and the largest single union in Iceland, indicate that the hard core of Communist strength remains relatively un-eroded. Despite a determined Social Democratic - Conservative effort to dislodge them, the Communists in Dagsbrunn obtained 58 percent of the vote--as against 65 percent in 1954, the last time their control of the union was challenged--but almost the same number of votes.

Despite press reports, the coalition government does not appear in any danger of disruption. The government's majority in Parliament remains secure, and the Social Democratic party, the least enthusiastic member of the coalition, probably intends to stick with the cabinet alliance headed by Progressive Prime Minister Hermann Jonasson. The Social Democrats would fade into political impotence without the support of the Progressives, and neither the Progressive party, nor the Labor Alliance stands to gain by a breakup.

The outcome of the election reduces still further the possibility that the coalition might revive its opposition to US bases in the near future, or that it would call for resumption of negotiations with the United States looking toward withdrawal of US forces from the NATO air base at Keflavik.

**ICELANDIC PARLIAMENT**

24 JUNE 1956 ELECTIONS



The Conservatives obtained 57.7 percent of the vote in Reykjavik, winning 10 of the 15 seats in the city council, and in the country as a whole they received approximately 52 percent of the vote, obtaining a majority in 14 of the larger towns. The Labor Alliance received almost 20 percent of the vote and kept its three seats on the Reykjavik council, although its total vote declined some 25 percent in comparison with the parliamentary elections of June 1956. The Labor Alliance also retained its strongholds of Kopavogur, a suburb of Reykjavik, and Neskaupstadur on the east coast. The Social Democrats suffered a serious defeat, confirming the view

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## PART III

PATTERNS AND PERSPECTIVES

## CHINESE COMMUNIST POLICIES TOWARD UNDERDEVELOPED AREAS

Communist China, taking an active role in bloc efforts to supplant Western influence in underdeveloped regions, concentrates chiefly on a propaganda offensive, cultural exchanges, and trade. Peiping's primary target is Southeast Asia, but it is becoming increasingly active in the Middle East, Africa, and Latin America. In addition to working for the advancement of bloc interests in these areas, the Chinese hope to win wider diplomatic recognition and international acceptance. Only recently embarked on their own industrial development, the Chinese have gained prestige by extending or offering economic aid to other underdeveloped countries--Egypt, Yemen, Burma, Nepal, Cambodia, Ceylon, and Indonesia. Chinese aid thus far offered to these countries totals about \$100,000,000.

Peiping like Moscow sustains a sizable propaganda effort in aligning itself with nationalistic and anticolonialist sentiment. The West, particularly the United States, is persistently vilified for "imperialistic" activities in underdeveloped regions. Peiping initiated a series of daily radiobroadcasts to Arab states in November, and a similar series to Latin America in December.

Chinese propaganda directed to the Middle East and Latin America invites underdeveloped countries to model their efforts on Chinese experience to achieve independence from the West. The Chinese pose as members of the "colored race" who have successfully overthrown "imperialist aggression" in acquiring independence. Chinese books, pamphlets, and other literature are found in increasing quantities in the Middle East and

South America, and all develop this theme while chronicling the advances made on the mainland under the Peiping regime.

To spread their influence in areas where they lack diplomatic representation, the Chinese continue to rely on "people's diplomacy"--widely varied cultural exchanges--and are financing an increasing number of mainland visits by groups from the Middle East, Africa, and Latin America, as well as from Asian states. Most of the travelers return home with glowing accounts of Chinese achievements and thus can serve to popularize the Peiping regime.

Businessmen and traders among the travelers often come away with dazzling visions of China with its population of about 640,000,000 as a potentially lucrative market. Playing on this, the Chinese have sent trade missions on extensive travels and have received similar missions from abroad. Hampered by shortages in foreign exchange and committed largely to the bloc for foreign trade, the Chinese have signed no extensive trade agreements with free world countries, but they cultivate a belief that the possibilities for trade in the future are good. The Chinese frequently equate "maximum" trade arrangements with early diplomatic recognition.

There is evidence that Peiping may be playing an important role in guiding the activities of some foreign Communist parties. Peiping has influenced party affairs in a number of Asian countries over the past decade, and some Communist leaders in Latin America, as well as those in Egypt, are beginning to place greater emphasis on Peiping as a source

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of ideological guidance, without rejecting, however, Moscow's recognized supremacy.

Asia

Communist China's political and economic drive in underdeveloped areas is concentrated in South and Southeast Asia, where the long-term objective is an alignment of states which can be dominated from Peiping. One of the means now being employed is trade. Approximately 25 percent of China's \$1 billion worth of annual trade with the free world involves this area.

For the most part, Peiping supplies Southeast Asia with inexpensive Chinese-manufactured goods rather than the raw materials with which it supplies other free world markets. This tends to promote the view that China is rapidly approaching industrial self-sufficiency. Moreover, Chinese pricing policies are designed to eliminate competition from Japan and Hong Kong and make Southeast Asia dependent on the mainland. By quoting prices well below those prevailing in the market and by offering favorable payment terms, Peiping is able to undercut the position of private traders.

The Overseas Chinese, many of whom are influential in the politics and economies of their host countries, are important targets for Chinese Communist strategems. Embassy staffs give advice and guidance to pro-Communist Overseas Chinese individuals and organizations and help promote their causes. Local branches of the Peiping-controlled Bank of China in Burma, Malaya, Indonesia, and Singapore offer easy-term loans to Overseas Chinese merchants to purchase exports from the mainland. In some cases such loans are extended in return for the borrower's promise to support Communist objectives.

The extension of economic aid is a newer device for Peiping, one which the regime's officials admit is difficult to use to any great degree because of limited resources. China's first venture in foreign aid was made in the summer of 1956, with a grant of \$22,400,000 to Cambodia. That fall it extended aid worth \$13,000,000 to neighboring Nepal. Since then, the Chinese have offered low-interest loans of \$20,000,000 to Indonesia to be used in building up light consumer industries, and \$4,200,000 to Burma for a textile mill. Last September, a grant of \$15,750,000 was made to Ceylon for the rehabilitation of Ceylonese rubber plantations. Except for \$4,200,000 in cash given Nepal, this aid to Asian countries has involved light industrial goods, which in many cases are sold by the receiver countries to generate funds for the domestic economy.

Peiping boasts that its aid has "no strings attached." It is tailored to the economic requirements of the countries concerned and in some cases is particularly well matched with Soviet approaches. The aid to Ceylon's rubber replanting program, which was offered at the end of China's five-year contract to buy rubber at prices well above the market level, has been followed by a Soviet offer to buy most of Ceylon's rubber output at top prices.

Middle East and Africa

The Chinese have followed the Russian lead in noisily backing Arab causes, and have aligned themselves with Egypt, Syria, and Yemen on all issues involving the Middle East. The Chinese effort in the area is almost entirely political, but in some cases pledges of friendship have been backed by economic aid. Peiping gave a cash gift of \$5,000,000 to Egypt

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during the Suez crisis in 1956 and recently extended an interest-free credit of \$16,500,000 to Yemen for purchases of vehicles and other commodities from China. The Sino-Yemeni agreement, worked out by Chou En-lai and Crown Prince Badr during the latter's visit to China in December and January, calls for the Chinese to send road construction technicians to Yemen and for the training of Yemeni students in Chinese schools. Trade between China and the Arabs amounts to about \$40,000,000 annually, most of it involving Egypt.

Cultural exchanges between China and the Arab countries are increasing and visits of high-level officials are in the offing. Chou En-lai is planning to go to Cairo, and probably Damascus, later this spring. No date has yet been announced for Nasir's projected tour of the Far East.

Peiping is active in Africa also, working to increase trade and promote bloc interests. Chief targets are the newly independent governments from which Peiping seeks diplomatic recognition. The Chinese see trade and "people's diplomacy" as

intermediate steps toward this goal. Morocco, Tunisia, Ghana, and Sudan are the prime objects of Peiping's attentions.

Latin America

As in the Middle East, the Chinese rely primarily on propaganda in contributing to bloc attempts to penetrate Latin America. Chinese activity is supplemented by a trade drive. Tours of South America by Chinese Communist entertainment troupes have helped to focus some Latin American interest on China.

There has been limited trade with Mexico, Argentina, Brazil, Uruguay, and Cuba, and a Chinese commercial delegation in 1957 made a seven-month tour of Argentina, Chile, and Uruguay in hopes of landing significant trade contracts. No trade or payments agreements were reached, but reports suggest the Chinese may have made some headway in Uruguay. If, as the Chinese hope, a permanent trade mission can be posted there, Peiping will have its first representation in the western hemisphere. (Prepared jointly with ORR)

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**SOVIET PRICE REFORM DISCUSSION**

For the past year, Soviet economists have been discussing pricing policies in an effort to cope with the growing size and complexity of the economy. As more decisions are entrusted to lower echelons in connection with the regional reorganization of industrial management, it becomes increasingly important that these echelons, as well as planners in Moscow, work with prices which realistically reflect production and consumption conditions. Alteration of the price system is also aimed at eliminating

obvious anachronisms such as the use of prewar labor norms and wage rates in determining production costs.

In its wider implications, the debate could bring into question certain basic Soviet tenets which deny that a price system can be efficient as an automatic regulator of a socialist economy, and stress the role of centralized planning. In view of the increasing attention being given to more efficient use of resources in the USSR as one way of promoting

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economic growth, fundamental questioning of economic dogma may well persist.

The debate involves staff members of the Academy of Sciences, Gosplan experts, university professors, factory managers, engineers and technicians, and students. It began in specialized newspapers and magazines on economics and was taken up by statistical conferences, public meetings, and by party journals such as Kommunist and In Aid of Political Self-Education.

The appraisal is concerned particularly with the pricing of producer goods, such as raw materials, semifinished goods, and machinery. Prices for some of these goods now do not cover the cost of production--a deviation from the standard pricing doctrine in the USSR. In addition, prices often do not reflect abundance or scarcity relative to the demand for goods. Unduly low prices for high-cost or scarce commodities encourage their wasteful use.

#### Two Schools

The proposals advanced to correct these deficiencies fall into two general categories. One school--represented by Strumilin, Kronrod, and Kondrashev of the Academy of Sciences--has advocated an across-the-board increase in industrial wholesale prices. A uniform percentage markup, combining profits and excise taxes, would be fixed for all industrial production, and would be calculated as a percentage of wage costs or of total cost.

At present, although the profit rate is planned in relation to total cost, rates vary for different industries and excise taxes vary widely. Price differences under the revised arrangement would reflect differences in either labor costs or total cost. According to Soviet estimates, however, such an increase would cause a 100-percent rise in the producer goods price level, because of

its cumulative effect, since some producer goods are used in the production of other producer goods.

The second school is represented by Professors Bachurin and Turetsky, Gosplan price expert Mayzenberg, Ostrovityanov of the Academy of Sciences, and Gatovsky, editor of Problems of Economics. This school opposes a general increase in industrial wholesale prices, on the grounds that it would not meet what they consider the primary need of price reform--a system of prices which more accurately reflects scarcities and real costs. This group also believes such an increase would violate the policy of making periodic reductions in producer goods prices as costs decline.

Instead, this school proposes selective increases or decreases in industrial wholesale prices--the differing rates of profit to reflect relative scarcities. For example, profits would be higher in extractive industries than in machine building, which in turn would have a higher profit rate than light industry. Were industries to retain and invest their profits, expansion could be effected in those industries where it was required. This scheme would reverse the present prevalence of higher profit rates in light industry than in heavy industry.

#### Retail Prices Exempt

Neither group has proposed major changes in retail prices. Any increase in costs in light industry caused by an increase in producer goods prices would, according to both schools, be at the expense of excise taxes or profits rather than retail prices. However, since it is generally agreed that the level of retail prices must be high enough to absorb the money income of the population, return to the practice of annual general retail price cuts of

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1948-1954 is unlikely, although adjustments in the prices of certain consumer goods and services are recommended by some economists.

Neither group has advocated changes in the general level of agricultural procurement prices. While endorsing the price increases established in 1953-1955 as being necessary to stimulate lagging agricultural output by increasing farmers' incomes, Soviet economists also endorse the principle of keeping agricultural procurement prices substantially below retail prices. From this "spread," the state is reimbursed for the land and services it provides agriculture and avoids greater reliance on direct income taxes. However, some adjustments have been advocated in the prices of individual agricultural products, such as an increase for livestock and a reduction for flax. In addition, some writers have recommended the adoption of a single form of state procurement at a single price--instead of the present system

which calls for obligatory deliveries to the state at one price and above-quota sales to the state at another higher price.

Recent issues of Kommunist, the chief party journal, have given some clue to what the official line on price reform may be. It appears likely that adjustments will be made in the most conspicuous cases of underpricing--coal, for example. A decision may be taken to reduce or eliminate subsidies judging from the price increase and the elimination of subsidies on timber decreed early in 1957. Timber had been sold for many years at a loss. However, it seems probable that a general price change will come only when the planned revaluation of fixed assets and the revision of amortization rates are completed in 1959. According to views expressed in Kommunist, the periodic wholesale price changes for industry should take the form advocated by the second school--selective, specific price adjustments.

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**MIDDLE EAST OIL DEVELOPMENTS 1957-1958**

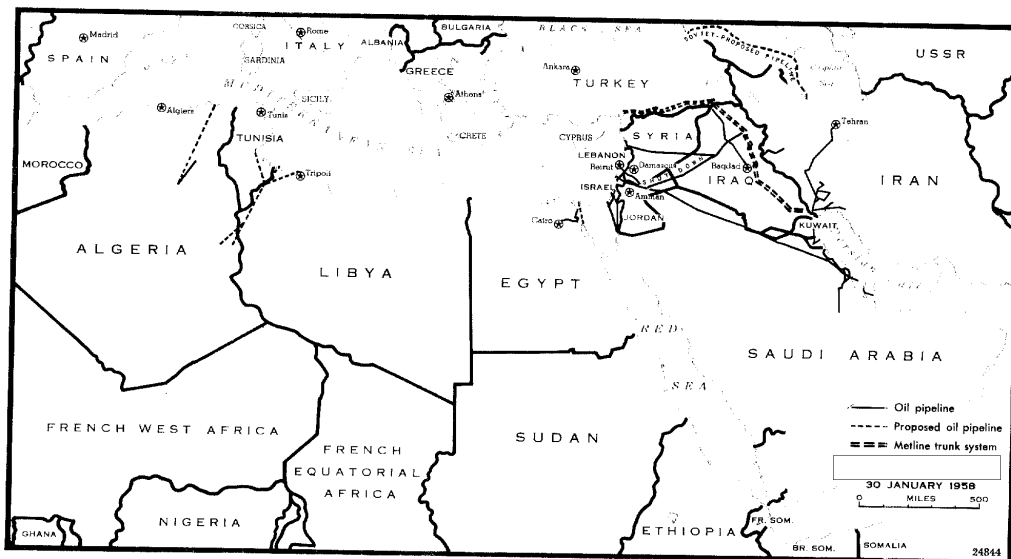
The prospects for Middle East oil production in 1958 are for a record year, with levels substantially above those before the Suez crisis in late 1956. All major Middle East crude producers except Iraq, had fully recovered from the Suez crisis by mid-1957. By the end of 1957, over-all Middle East production had increased about 2 percent over 1956 and some 8 percent compared with 1955.

**Iran**

Leading the improvement was Iran, which increased production to 725,000 barrels per day, almost 34 percent over the previous year, and exceeded, for the first time the output level of 1950, the year before nationalization of the oil industry.

Least affected by the Suez closure, the Iranian oil situation seemed to be moving

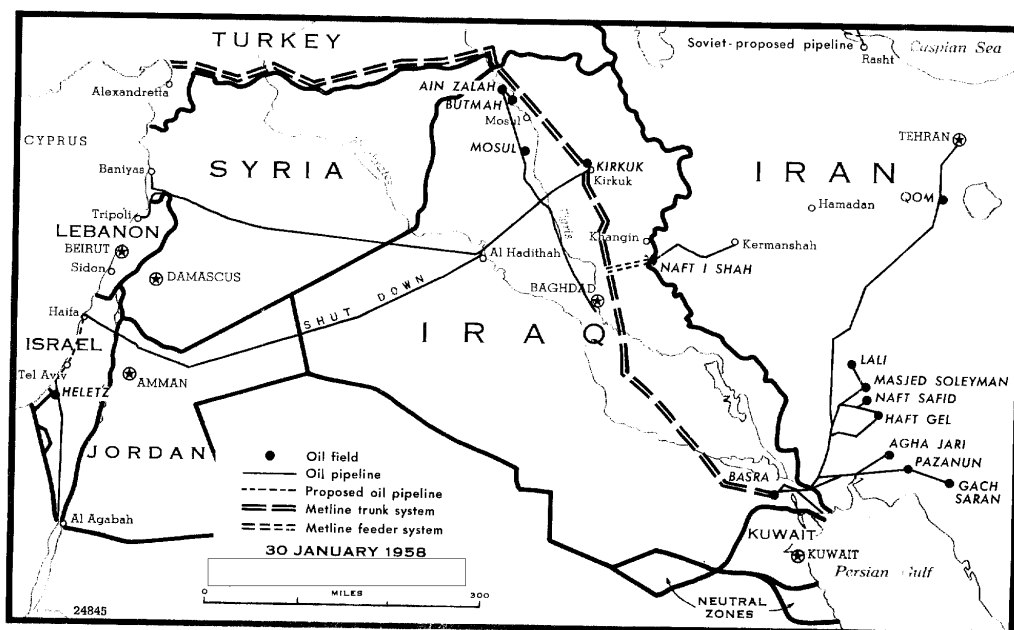
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contrary to established oil interests for a while last year when the government-owned National Iranian Oil Company signed an agreement with the Italian government-controlled national oil company ENI to exploit jointly onshore and offshore concessions. While this agreement calls for the usual 50-50 percent profit split, its provisions are such that the Iranian Government will receive 75 percent of the profits. The

agreement thus poses a potential threat to the 50-50 formula widely used in international oil operations. The Italian deal, however, is unlikely to have any appreciable effect in the next several years on the operations of other Western companies, since neighboring oil countries have adopted a wait-and-see attitude toward possible renegotiation of oil agreements.

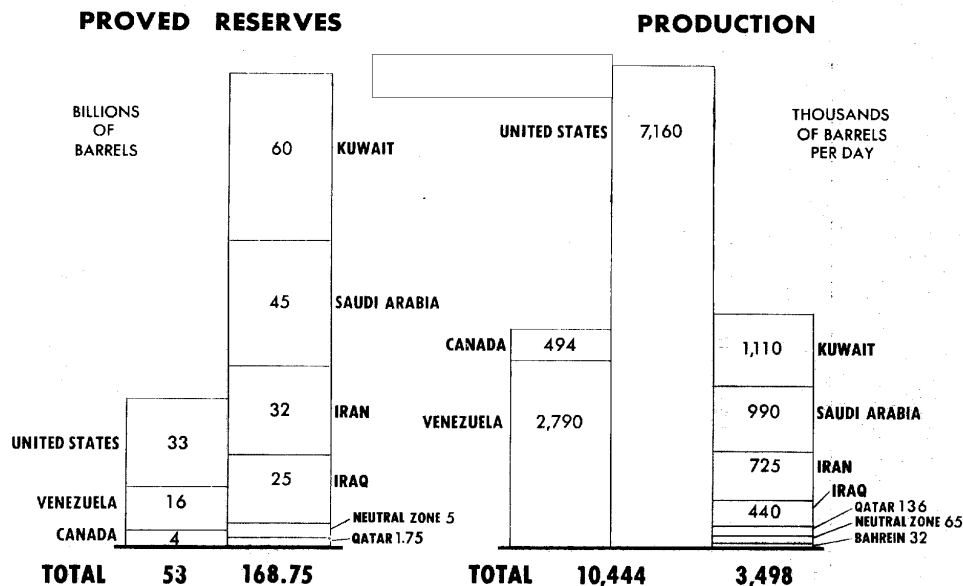


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**CRUDE OIL SITUATION 1957**

The Italian company plans to spend \$6,000,000 in the next four years and \$16,000,000 in the succeeding eight, whereas the consortium of almost 20 other Western companies operating Iran's oil industry will spend \$140,000,000 in 1958 alone. The consortium, moreover, pays profits in hard currencies and offers established transport and marketing facilities --advantages known to area governments.

Iran probably has the most favorable prospects in the Middle East for continuing substantial production increases. The growing markets of the consortium companies have encouraged the group to invest heavily in the Gach Saran field in southern Iran--\$53,000,000 in the next few years. This field, discovered in 1928 but held in reserve because of the special processing required for its crude, is believed by some to be the largest in the world. In 1956 it had only one producing well, with an output of

only 231 barrels a day. In 1957, 12 wells were producing a total of 43,000 barrels per day, and present plans call for construction of several processing plants each to handle 150,000 barrels per day.

Progress on the government-owned and -operated Qom strike has been steady if unspectacular. The Qom wildcat, located more than 200 miles from any other Iranian field, was brought in in 1956 and, uncontrolled, gushed about 80,000 barrels a day until the well collapsed. An American syndicate has agreed to finance construction of a pipeline from the field across Turkey to the Mediterranean. Implementation of this project, however, depends ultimately on sizable proved reserves at Qom.

The USSR reportedly has offered to participate in Iran's oil industry through a guarantee to purchase crude from areas yet to be exploited and to build a pipeline from Iran under the Caspian Sea across the USSR to

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the Black Sea, apparently terminating near Batumi. There has been no official Iranian acknowledgment of the offer.

**Iraq**

Iraq's crude production in 1957 averaged only about 440,000 barrels per day--35 percent below 1955--a direct result of the destruction of pumping stations of the Iraq-Syria-Lebanon pipelines during the Suez crisis. These lines, which had a capacity of about 534,000 barrels per day just before the Suez closure, were carrying less than 390,000 barrels a day in September 1957. Although they are to be restored to the pre-crisis level this year, Iraq's general transportation bottleneck will still keep output at about the 1955 figure.

During the first half of 1957 the major Middle East oil companies discussed construction of a pipeline--the so-called Metline--from Iraq through Turkey to the Mediterranean to absorb increases in Iraq's production. The line was also expected eventually to carry crude from Kuwait, Iran, and possibly Saudi Arabia. The proposal has been indefinitely shelved, however, largely because of Iraq's reluctance to offend its Arab neighbors, and also because of differences between the companies concerning the advantages of a pipeline over supertankers. Fao, Iraq's only port, cannot handle more than 200,000 barrels a day. Construction of a second port now planned at the mouth of the Shatt-al-Arab River, however, would allow substantial production increases.

Thus far neither economic activity in general nor Iraq's ambitious development plans--which are completely dependent on oil revenues--have been measurably affected by decreased

oil production. The cutback in oil revenue was made up from substantial reserves built up in previous years by the Iraq Development Board--amounting to over \$200,000,000 at the time of the Suez closure--and loans from the Iraqi Petroleum Company (IPC). Minister of Finance Nadim Pachaci has acknowledged, however, that fiscal 1959 will probably be an "austerity" year. Spending will be cut somewhat to reduce the \$36,000,000 deficit originally envisioned, and Pachaci also hopes to postpone until January 1959 payments on the IPC loan due this July and to receive an additional \$13,000,000 to \$15,000,000 from the IPC.

**Saudi Arabia**

Saudi Arabia, almost as hard hit by the Suez crisis as Iraq, had only a modest crude production increase in 1957. The year's average was 990,000 barrels per day, only 0.4 percent over 1956 and about 12 percent below Kuwait, still the area's record producer.

There were, however, several significant petroleum developments. The Safaniya field--the Persian Gulf's first offshore field, discovered in 1951--was brought into production in April following completion of a 140-mile 22-inch pipeline to loading facilities at Ras Tanura. The line is expected to carry up to 175,000 barrels a day by mid-year. The Arabian-American Oil Company (Aramco) in late November brought in an offshore wildcat at Manifa which reportedly hit a new producing formation of unknown size.

Onshore, two important discoveries were made this year. The strike at Khurais may be one of the most important to date. Khurais is near the western border of the Aramco concession adjacent to a large area

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in which the company has only "preferential rights"--i.e., the right to meet any competing bid. Also in 1957, Ain Dar Number 56 was brought in, extending the Ghawar field 12 miles northward. This field, the largest in Saudi Arabia, now is 152 miles long and about 16 miles wide.

The capacity of the 735-mile Trans-Arabian Pipeline (Tapline), which terminates at Sidon, Lebanon, is being stepped up this year to 435,000 barrels a day as compared with 325,000 barrels a day before the Suez closure.

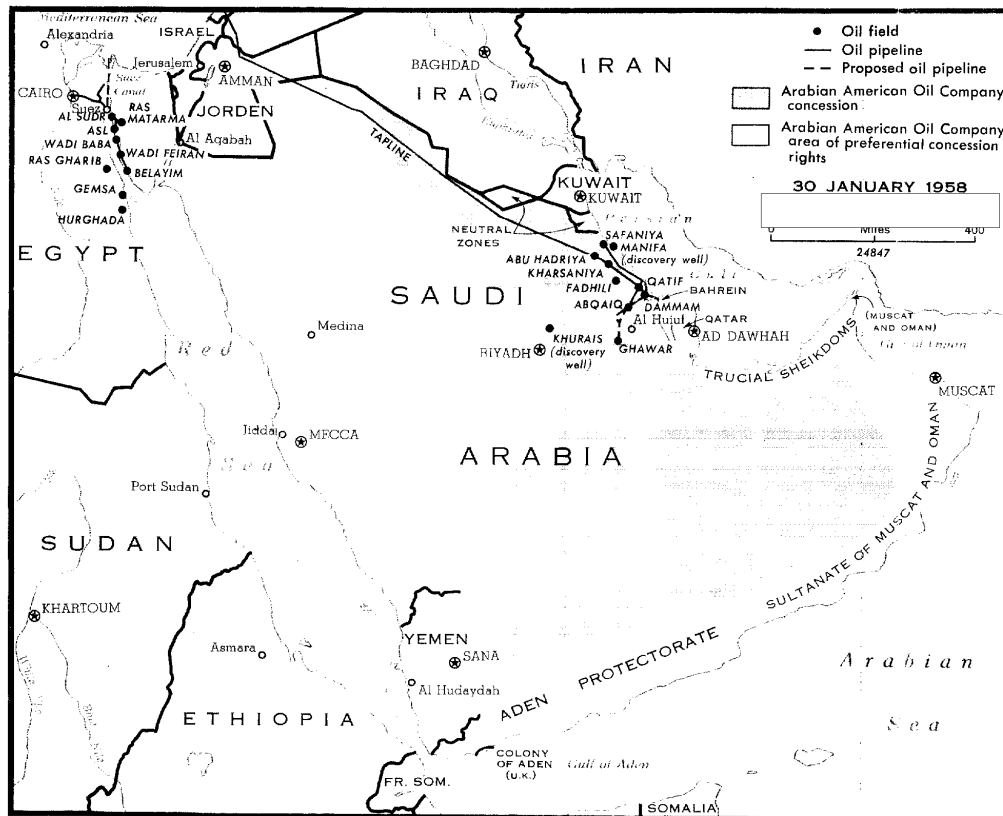
A Japanese mission which visited Riyadh in December to discuss a concession agreement in Saudi Arabia made little progress. The Japanese, however, did obtain the concession to exploit Saudi Arabia's half

interest in the Neutral Zone's offshore areas.

**Neutral Zone**

In terms of Middle East oil, the Neutral Zone between Kuwait and Saudi Arabia is insignificant, with crude production averaging only 65,000 barrels a day in 1957. However, production will probably increase to 100,000 barrels a day this year. The Saudi-Japanese agreement, has given the zone a new importance.

The onshore areas of the Neutral Zone are under concession to two American firms, the Getty Oil Company and the American Independent Oil Company (Aminoil). Field operations are on a joint basis. Getty received its concession from Saudi Arabia, while Aminoil is exploiting Kuwait's half



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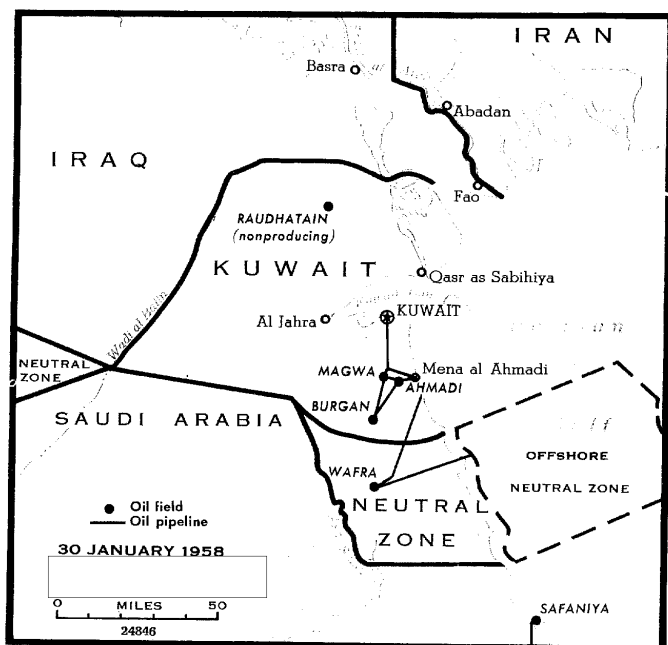
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interest. Each company pays its consignor country roughly 50 percent of the company's profits.

The agreement assigning Saudi Arabia's half interest in the Neutral Zone offshore area to the Japanese group is the first to depart specifically from the 50-50 profit split prevailing in the area. Saudi Arabia will participate in the management of the company and apparently will receive 56 percent of the profits of transportation, refining, and marketing as well as production.

The agreement is a triumph for Tariqi, Saudi Arabia's ambitious and competent director of petroleum affairs, who has been hoping to broaden his country's participation in Aramco operations and eventually to acquire for his country a share of the transporting, refining, and marketing profits of the company's operations.

Kuwait

Recovering quickly from the Suez closure, Kuwait crude production, still the largest in the Middle East, reached a record high in early December of 1,405,000 barrels a day, up about 17 percent from the level just preceding the closure. The year's daily average, however, was about 1,111,000 barrels a day, less than 2 percent above 1956. Expansion of loading facilities to accommodate the increasing output began at the Mina-al Ahmadi tanker

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terminal; a new jetty, expected to be completed by mid-1959, is being built. Other facilities enlarged in 1957 increased loading capacities from 1,200,000 to 1,500,000 barrels a day.

The Raudhatain field, discovered in 1955, was confirmed last year and, while probably not as large as the Burgan field, promises to be a major producer. All 1957 production was from the Burgan and Magwa-Ahmadi fields, which boast reserves of 60 billion barrels, the largest in the world.

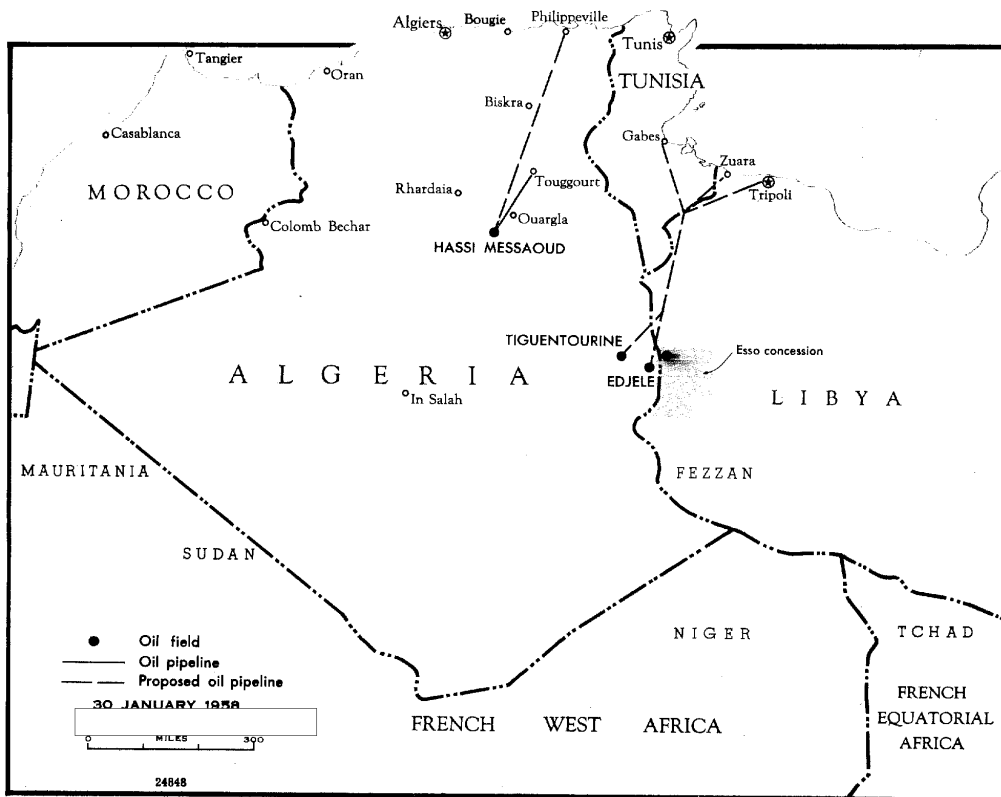
While Kuwait is negotiating with Japanese and American groups for the offshore half-interest in the Neutral Zone, there has been no activity regarding the offshore area of Kuwait proper. The area onshore and out to the six-mile limit is under concession to

the Kuwait Oil Company, in which the Gulf Oil Corporation and the British Petroleum Co., Ltd., each have a 50-percent interest.

**Algeria**

Algerian crude production was negligible in 1957, with only one old field about 65 miles south of Algiers producing an average of 346 barrels a day. Drilling continued on four fields discovered in 1955 and 1956, however, and proved reserves increased from about 15,000,000 barrels in 1956 to about 500,000,000 last year. Ultimately, reserves from these fields may exceed 8 billion barrels--more than onshore reserves in the Neutral Zone.

The main problem in Algeria is transporting the oil through rebel-infested territory to the

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coast. French hopes of utilizing Hassi Messaoud crude are pinned on a 112-mile 6-inch pipeline completed in December which joins the field to the railhead at Touggourt, where the crude would be transferred into tank cars for the 340-mile rail journey to the Algerian port of Philippeville. The first token trainload of 1,500 barrels in mid-January was delayed when rebels derailed 20 cars in a preceding train. The pipeline, built under a \$3,000,000 crash program, is expected to carry 4,000 barrels a day.

An American group has proposed a \$40,000,000, 18-inch pipeline from Hassi Messaoud to the Edjele field through Libya to Tripoli. The line would have an initial capacity of 100,000 barrels a day which later could be stepped up to 160,000. A French group has made initial surveys on a 300-mile 24-inch line from Hassi Messaoud to Bougie on the Algerian Mediterranean coast. This line would have an initial capacity of 100,000 barrels a day which could ultimately be raised to 300,000.

Libya

Hopes that Libya might hold major petroleum deposits were raised in late December when the Libyan affiliate of Esso--Standard Oil Company (New Jersey)--had favorable oil shows in its concession near the Algerian border. A wildcat, which tested 280 barrels a day, is located just across the border from the French discovery at Edjele, where oil in commercial quantities was found in 1955. While substantial drilling and exploration work continues throughout most of the country, the Esso well offers the strongest evidence to date of oil in commercial quantities in Libya. The future of Libya as an oil country may well be determined by the end of 1958.

In other Libyan developments, Enrico Mattei, Middle East troublemaker and dynamic head of Italy's national oil company, ENI, suffered a major setback when the Libyan concession for which he was negotiating was suddenly awarded to an American company.

Egypt

In 1957, Egypt made significant progress toward its goal of self-sufficiency in petroleum. Reversing a long-term downward trend, Egyptian crude production from all fields reached an average of 48,000 barrels a day. This 30-percent increase over 1956 was due almost exclusively to increased production from the Belayim field on the Sinai Peninsula, discovered in 1955. The Rudeis field on Sinai, discovered last year, is also expected to be a major producer by Egyptian standards.

While production increased to the equivalent of over 60 percent of total petroleum consumption--about 80,000 barrels a day--imports of crude remain at a high level because of the characteristics of Belayim crude. In addition to having a high salt content which renders it virtually unusable in present Egyptian refineries, Belayim crude yields practically no kerosene or distillates, which are major items in Egypt's petroleum consumption.

Through its holdings in the International Egyptian Oil Company, the Italian government-owned ENI has been importing 15,000 barrels a day of Egyptian crude and hopes to double that amount this year.

Since the Suez crisis, nearly all Egyptian crude production and refining have been dominated by the government. Following the hostilities, Cairo sequestered the previously predominant British interests, including the largely British

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owned refinery at Suez, handling 44,000 barrels per day. With the help of Czechoslovakia, Egypt is doubling the capacity of its own plant at Suez to about 55,000 barrels a day.

source of domestic oil. Although production from the Heletz field--the only proved field in Israel--was double that of 1956, the amount was still negligible. The 1,200 barrels a day produced in 1957 accounted for less than 5 percent of the country's requirements of about 25,000. Reserves are estimated at about 50,000,000 barrels. Prospects for a substantial find this year are not promising.

While production was disappointing, the government changed its petroleum transport system markedly. Prior to 1957, no petroleum was moved through the port of Eilat on the Gulf of Aqaba. Last year, however, a pipeline from Eilat to the Mediterranean was completed along with storage facilities at Eilat for 225,000 barrels of oil. Probably as much as 50 percent of Israel's 1958 petroleum imports will pass through Eilat. The origin of this petroleum is non-Arab Iran, which continues to allow crude shipments to Israel despite appeals from its Arab neighbors.

**Israel**

Israel failed to make any appreciable progress last year in its search for an adequate

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**FALLING METAL PRICES DISTURB LATIN AMERICAN ECONOMIES**

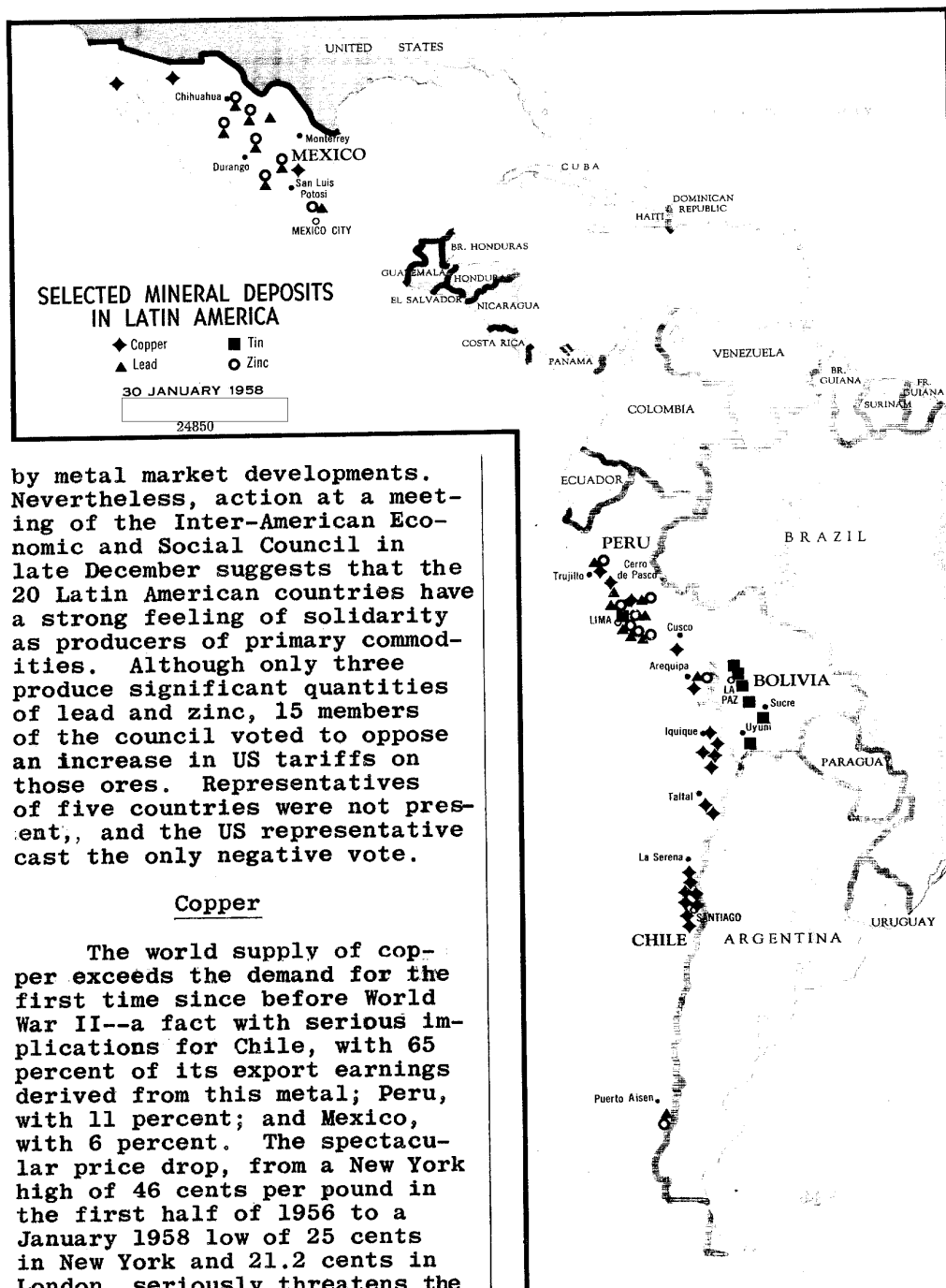
The downward trend in prices for copper, tin, lead, and zinc is undercutting the economies of Chile, Bolivia, Mexico, and Peru--the four Latin American countries where metal ores are critically important foreign exchange earners. The success of the US-backed economic stabilization programs in formerly inflation-ridden Chile and Bolivia is endangered by the loss of foreign exchange and by the possibility that opposition political groups will capitalize on the threat of new US tariffs. Under this pressure

Chile is turning to the Soviet Union as a customer for its copper.

The Mexican and Peruvian export patterns are the most diversified in Latin America and these countries are therefore not so dependent on a single category of exports. The affected metals nevertheless make up about 15 and 40 percent respectively of total exports, and falling prices will put a brake on economic growth.

Only four Latin American countries are seriously affected

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by metal market developments. Nevertheless, action at a meeting of the Inter-American Economic and Social Council in late December suggests that the 20 Latin American countries have a strong feeling of solidarity as producers of primary commodities. Although only three produce significant quantities of lead and zinc, 15 members of the council voted to oppose an increase in US tariffs on those ores. Representatives of five countries were not present, and the US representative cast the only negative vote.

**Copper**

The world supply of copper exceeds the demand for the first time since before World War II--a fact with serious implications for Chile, with 65 percent of its export earnings derived from this metal; Peru, with 11 percent; and Mexico, with 6 percent. The spectacular price drop, from a New York high of 46 cents per pound in the first half of 1956 to a January 1958 low of 25 cents in New York and 21.2 cents in London, seriously threatens the US-backed economic stabilization program in Chile. A drop to 24 cents would bring into effect a mandatory US tariff and might result in the deterioration of relations with the United States in all these copper-producing countries.

The high copper prices of early 1956 led to increased investment by producers in improvements and expansion, shifts by manufacturers to cheaper substitute materials, and, in anticipation of still higher

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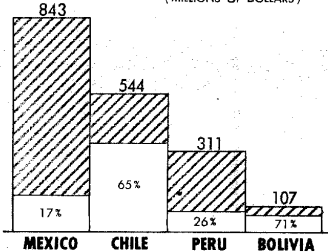
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prices, the accumulation of inventories by consumers, but some readjustments in these situations have already occurred. A world-wide 10-percent producers' cutback is now taking place, and while copper prices may drop still further and fall below the 24-cent minimum, future price cuts will be minor compared with the drop that has already taken place.

While the long-range outlook appears fairly good, the immediate problems of overproduction and lower prices have caused mine shutdowns in Mex-

**EXPORT EARNINGS**  
FROM COPPER, TIN, LEAD & ZINC  
(MILLIONS OF DOLLARS)



ico and production cutbacks in Peru, while in Chile the closing down of marginal producers has been stalled only by government subsidies. In the event the US tariff is applied, the difficulties of the Chilean Government would be greatly increased in pursuing its economic reform program, which is widely known to be backed by the United States. Chile is negotiating with the USSR for sales of bare copper wire to the Soviet bloc in the hope of making up some of its foreign exchange deficit.

Popular ignorance in Latin America regarding the world copper market and latent distrust and dislike of the large American companies continue to create a fertile field for political extremists in Chile and Peru, particularly in conjunc-

tion with other economic problems confronting the governments. Mexico sees the threat to its copper production as proof that the United States is not aware of the effects in Latin America of US tariffs and economic policies.

Tin

Tin is almost as important to Bolivia as copper is to Chile, since tin makes up about 60 percent of total Bolivian export earnings. Tin prices have dropped 14 percent, from \$1.09 per pound in early 1956 to about 91 cents in 1958. The excess supply has resulted primarily from the cessation of strategic stockpiling by the United States in 1956 and from recent Soviet sales in the free world of an amount equal to about 4 percent of annual world consumption.

Open market purchases under the terms of the International Tin Agreement--which came into force between Bolivia and five Afro-Asian countries in mid-1956--have steadied the market and, by absorbing excess production, should prevent prices from declining much below the agreed floor of 91.25 cents per pound. Even these operations, however, are not without cost to Bolivia, since the government has had to borrow a considerable sum of money to contribute to the buffer-stock fund. Furthermore, its exports for the first quarter of 1958 are under quantitative limits established by the Tin Council set up under the tin agreement.

Lead and Zinc

Lead and zinc--which are usually mined together--do not dominate any one of the Latin American economies but provide at least a tenth of total export earnings in Mexico, Peru, and Bolivia. The fall in lead prices from 16 to 13 cents over

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the past two years, and in zinc prices from 13 to 10 cents, is having a depressing effect on the economies of these countries.

These two minerals in themselves are the most important for the mining industry in Mexico, and the production of other minerals as by-products contributes a sizable amount to the economy. For example, two companies, both primarily lead and zinc producers, account for 66 percent of Mexican silver production.

Falling production will have an adverse effect on the Mexican budget as well as on exchange earnings because, while certain small producers have already closed mines, the larger producing companies are in an inflexible position regarding labor. As in Peru and, to an even greater extent, in Bolivia, these companies cannot lay off workers without legal complications and without paying heavy indemnification. Producers are likely, therefore, to seek increased Mexican Government subsidies to counter falling production rather than to cease operations to redress the balance between supply and demand.

Peru's lead and zinc exports are only about half as large as Mexico's but, since Peru's economy is much smaller, these ores play a more important role, making up 15 percent of total export revenues in 1956. As in Mexico, lead mining

in Peru brings with it an increased production of other metals.

The Peruvian lead and zinc industry appears in worse condition than the Mexican. Peru is farther than Mexico from world markets and its mines are located at an altitude of 13,000 feet or higher, thus adding to transportation costs. Furthermore, the silver content of the lead and zinc ores sometimes spells the difference between profit and loss, and Peruvian ores are not generally as high in silver content as Mexican ores. While most producers in Peru have thus far postponed mine shutdowns to avoid heavy labor layoff costs, only the lower cost producers are expected to continue production through 1958.

Exports of lead and zinc ores from Bolivia come to only about one fourth of Peru's exports, but in Bolivia's tiny economy they represented about 10 percent of total foreign exchange earnings during 1956. Because of the decline in the earnings of tin and tungsten--tungsten ore prices fell more than 50 percent in 1956-57--lead and zinc exports provided 18 percent of foreign exchange earnings during the first nine months of 1957. The cost structure of lead and zinc production appears to be more precarious in Bolivia than in Peru, since Bolivia's mines have equipment deficiencies and are even more isolated from world markets than Peru's. 25X1

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